Board Of Investments

Fiscal Year 2006 Annual Report

MONTANA BOARD OF INVESTMENTS
Department of Commerce

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PO Box 200126
Helena, MT 59620-0126
www.investmentmt.com

The Honorable Brian Schweitzer, Governor

BOARD MEMBERS

- ***Terry Moore, Chairman***
  Executive Vice President & Chief Financial Officer
  First Interstate Bank
  Billings
  Term Ending 01/01/2007

- ***Teresa Cohea***
  Vice President
  D.A. Davidson & Co.
  Helena
  Term Ending 01/01/2009

- ***Elouise Cobell***
  Chairperson
  Blackfeet National Bank
  Browning
  Term Ending 01/01/2009

- ***Karen Fagg***
  Business Executive
  HKM Engineering, Inc.
  Billings
  Term Ending 01/01/2007

- ***Maureen Fleming***
  Professor of Management
  School of Business Administration
  University of Montana, Missoula
  Term Ending 01/01/2007

- ***John Paull***
  Battalion Chief
  Butte-Silver Bow Fire Department
  Butte
  Term Ending 01/01/2009

- ***Jack Prothero***
  Retired
  Financial Representative
  Great Falls
  Term Ending 01/01/2009

- ***Jim Turcotte***
  Financial Adviser
  Raymond James Financial Services
  Helena
  Term Ending 01/01/2009

- ***Calvin Wilson***
  County Attorney
  Big Horn County
  Busby
  Term Ending 01/01/2007

MONTANA BOARD OF INVESTMENTS
Staff as of June 30, 2006

- ***Carroll V. South***
  Executive Director
- ***Geri Burton***
  Deputy Director
- ***Louise Welsh***
  Bond Program Officer
- ***Mary Edwards***
  Bond Program Assistant
- ***Bobbie Pomroy***
  Portfolio Manager – Science & Tech
- ***Julie D. Lutman***
  Network Administrator
- ***Kimberly R. Dallas***
  Program Assistant/Board Secretary
- ***Libby Groves***
  Administrative Assistant
- ***Sara LaFountaine***
  Imaging/Scanning Assistant
- ***Gayle Moon, CPA***
  Accounting Fiscal Manager
- ***Mari Rohrig***
  Accountant
- ***Roberta Diaz***
  Accountant
- ***Nancy Grabowsky***
  Accountant
- ***Coralie Sciuchetti***
  Accountant
- ***Mary Noack***
  Accountant
- ***Herbert Kulow, CMB***
  Sr. Portfolio Manager – Montana Investments
- ***Cliff Sheets, CFA***
  Chief Investment Officer
- ***Robert Bugni, CFA***
  Portfolio Manager – Fixed Income
- ***Richard Cooley, CFA***
  Portfolio Manager – Fixed Income/STIP/Int'l Equity
- ***Rande Muffick, CFA***
  Portfolio Manager – Domestic Equities
- ***Edward Kelly***
  Portfolio Manager – External Managers
- ***Daniel Zarling CFA***
  Director of Research
- ***John Romasko, CFA, CPA***
  Investment Analyst – Fixed Income
- ***Steve Strong***
  Investment Analyst
- ***Jon Putnam***
  Investment Analyst
- ***Joseph Kennebeck***
  Trader
- ***Jason Brent***
  Investment Analyst
- ***Tim House***
  Investment Analyst
- ***Teri Kolnik***
  Investment Analyst
- ***Jon Shoen***
  Investment Analyst
- ***Charlie Williamson***
  Investment Analyst

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INTRODUCTION

The Montana Board of Investments (Board) is pleased to submit its Annual Report for the fiscal year ended June 30, 2006. This report, required by law, discloses investment performance for the past fiscal year, summarizes the in-state investment activities of the Board, and provides public access to audited financial statements. Unless otherwise noted, all references to years in this report are state fiscal years beginning July 1 and ending June 30.

General Board Responsibilities

Unified Investment Program **-** Article VIII, Section 13 of the Montana Constitution requires that the legislature provide for a unified investment program for public funds and that the program be audited annually. Section 17-6-201, MCA established the unified investment program, created the Board, and gave the Board sole authority to invest state funds in accordance with state law and the state Constitution. State law requires that the Board operate under the "prudent expert principle," defined as: 1) discharging its duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims; 2) diversifying the holdings of each fund to minimize the risk of loss and maximize the rate of return; and 3) discharging its duties solely in the interest of and for the benefit of the funds managed.

Prior to the Board's assumption of the state's investment program, state funds were invested by individual state agency staff, usually on a part-time basis. The creation of the Board in 1972 permitted a full-time professional investment staff to invest all state and (at the discretion of local governments) local government funds. At its first meeting in August 1971 the Board established four major goals:

- to centralize the state's investments;
- to invest the state's idle cash;
- to increase earnings on the state's investments; and
- to establish a sound system of control over the investment process, including provisions for systematic financial reporting, measurement of investment results, and a regular independent audit.

The unified investment program has grown from a book value of $321 million at year-end 1972 to a book value of $10.65 billion at year-end 2006 - an annual average increase of 10.8 percent. During the same period, the number of accounts invested by the Board increased from 40 accounts to 478 accounts.

In-State Investments **-** In addition to the Board's primary role of managing the state's unified investment program, the legislature has encouraged the Board to assist in Montana's economic development. Montana law (17-6-304, MCA) states that the "objectives for investment of the Permanent Coal Tax Trust Fund are to diversify, strengthen, and stabilize the Montana economy, and to increase Montana employment and business opportunities while maintaining and improving a clean and healthful environment. " Section 17-6-305, MCA, states that "the Board shall endeavor to invest up to 25 percent of the Permanent Coal Tax Trust Fund . . . in the Montana economy, with special emphasis on investments in new or expanding locally owned enterprises." In recent years the legislature has created two new loan programs - the “Infrastructure and Value-Added Loan Programs – and set aside $50.0 million of the Trust for each program.

Commercial\Infrastructure/Value-Added Loans - The Board manages these programs in conformance with the "prudent expert principle" and does not invest solely to improve Montana's economy. Operating the in-state investment program under the "prudent expert principle" has not prevented the Board from effectively investing the Trust to spur Montana's economy. Since the program's inception in 1984 through 2006, the Board has funded 1,178 loans totaling $473.8 million in 43 of Montana's 56 counties. Loans funded by county are shown on Page 62.

Mortgages - The Board also purchases Montana mortgages with pension funds as a part of the in-state investment program. At year-end 2006 the Board held 1,486 mortgages with total book values of $80.8 million in 54 of Montana's 56 counties - a decrease from the mortgages valued at $92.9 million held at year-end 2005. The Board serves as a secondary market to qualified financial institutions in the in-state investment programs and does not lend directly to borrowers. Outstanding mortgages by county are shown on Page 60.

Bond Program - As a part of the Board's in-state investment activities, it also sells bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to ten years, and short-term loans to finance cash flow deficits or interim financing are also available. Both the bond program and the in-state investment program, funded from the Permanent Coal Tax Trust, were created in fiscal year 1984 as part of the "Build Montana" program. Since the program's inception, $233.0 million has been loaned to eligible governments. Additional information on the bond program is shown on Page 64.

Securities Lending - Section 17-1-113, MCA, authorizes the Board to lend securities held by the state. Investment firms borrow securities to cover short positions, failed deliveries, arbitrage trades, and other brokerage activities. In recent years the Board has lent securities to qualified borrowers who pass rigorous tests and meet high standards for credit quality. Although state law requires that securities on loan be collateralized at least 100 percent, the Board requires borrowers to maintain collateral at 102 percent for domestic securities and 105 percent for international securities. To ensure that the collateral ratio is maintained, securities on loan are marked to market daily and the borrower must provide additional collateral if the value of the securities on loan increases. In addition to the strict collateral requirements imposed by the Board, the credit quality of approved borrowers is monitored continuously.

State Street Bank and Trust, the state's custodial bank, manages the state's securities lending program and retains 25 percent of the income generated as compensation for managing the program. The state earned securities lending income of $469,565 in 2006, compared to $819,807 in 2005. Because this program is demand driven by the markets, earnings are volatile.

Board Operations

Board Staff - The Board, comprised of nine members appointed by the Governor to staggered four-year terms, employs a Chief Investment Officer and an Executive Director who hire staff as authorized by the legislature. There are currently 34 full-time equivalents authorized as shown in the organizational chart on Page 4. Board staff also provides administrative support to the Montana Facility Finance Authority.

Board Administrative Costs - The investment portion of Board operations is funded by administrative charges against the funds it invests, while the bond program is primarily funded by the "spread" between the interest paid on bonds issued and interest received on loans made. Effective in 1998, the legislature has set the maximum fees the Board may charge in the investment program. Board management fees in 2006 were 2.8 basis points of the average fair market value of the total portfolio and 4.1 basis points of the internally managed portfolios. Custodial bank fees were less than 1 basis point of the Total Fund's average fair market value. The total fees charged, which includes BOI fees, external manager fees, and custodial bank fees are shown in individual financial statements.

Board Policies and Procedures

Investment Policies **-** The Board adopts an investment policy for each individual fund it invests, except for funds investing in STIP only. The policies are tailored to the specific needs of the fund and are implemented only after consultation with the administrators of the funds. Asset allocations and investment time horizons are established by policy, as are the benchmarks against which investment performance is measured.

Benchmarks **-** The Board establishes benchmarks for each asset class and the custodial bank develops a composite benchmark for each pension fund that parallels the fund's asset allocation at market value.

Board Meetings **–** Regular Board meetings are held quarterly. Meeting dates, agenda, and minutes are posted on the Board's web page at www.investmentmt.com. All Board decisions are discussed and voted on in meetings open to the public.

Report Content

This report contains historical data from 1972 (the first fiscal year the Board managed the unified investment program) through 2006. All historical data were extracted from the Board's annual published reports. Statistical data are provided on the Board's investment activity in 2006 and changes in investments from 2005. Appendix A includes income generated by account and securities portfolios for all accounts managed by the Board. Appendix B contains the Board's audited financial statements with accompanying portfolios. The financial statements provide detailed information on the investment pools, the "all other funds" account, and the bond program.

Report Terminology

Book Values of fixed-income investments represent the securities' par values, plus or minus amortized premiums or discounts. Book value of equity securities is the average cost of the securities at the time of purchase.

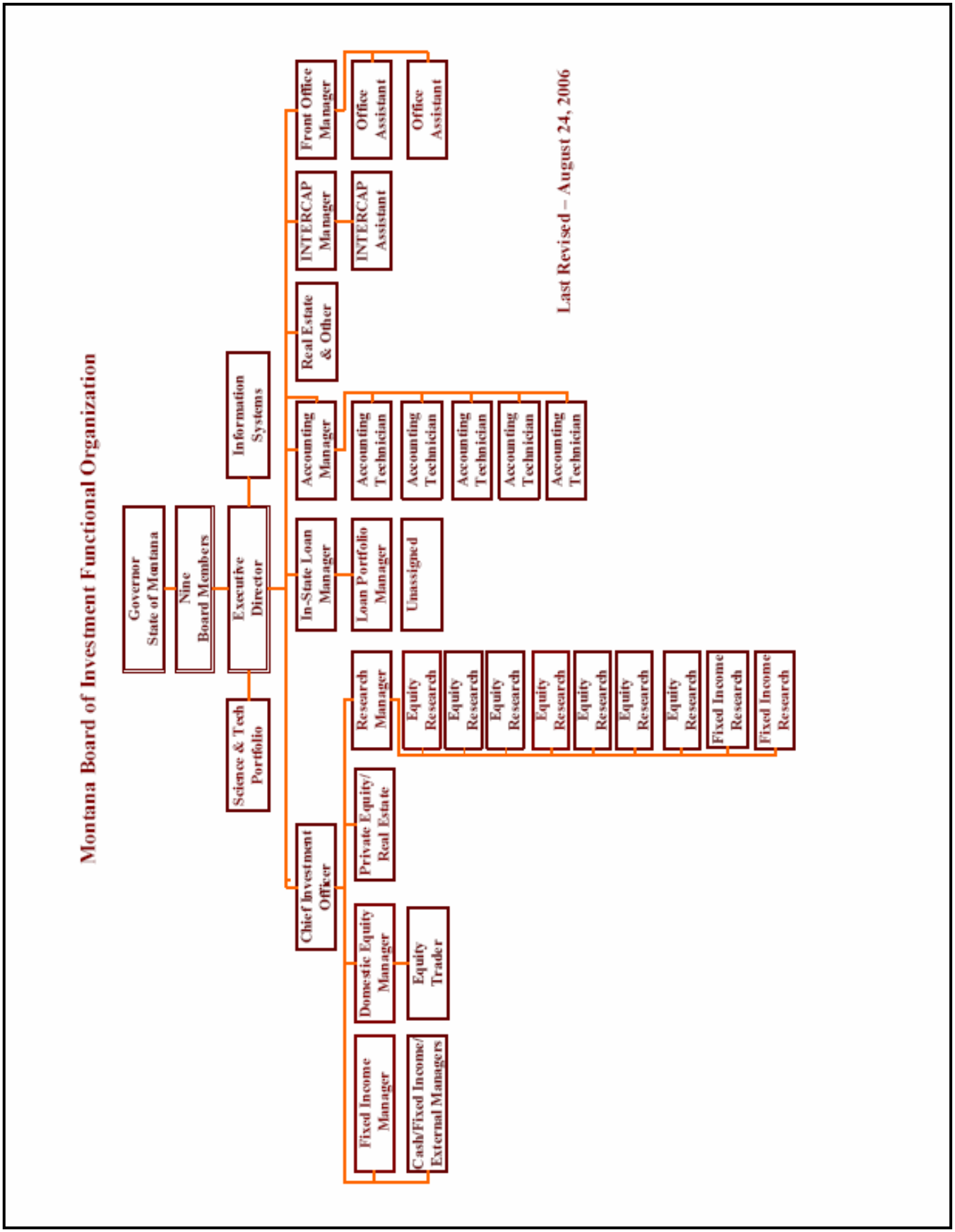
Fair Market Values reflect the value of securities on June 30 as priced by the Custodial Bank, or other sources.

Net Asset Value **(NAV)** as it relates to Investment Pools reflects the fair value of the pool securities, adjusted for payables, receivables, and cash on hand at year end. The aggregate fair value of the pool units held by pool participants equals the NAV of the pool.

Income Return utilizes actual invested balances and investment income as recorded in the state accounting system. The calculation divides the annual net income by one-half the sum of the beginning and ending invested balances. The income includes interest, dividends, amortization of premiums/discounts, securities lending income, and distributed realized gain/loss. The calculation is performed by Board staff. Income return does not consider any change in the fair market value of the portfolio during the period**.**

Total Rates of Return, calculated by the custodial bank, includes all investment income and the unrealized gains/losses resulting from annual changes in the market value of investments, after cash flows are netted. For periods longer than one year the returns are compounded and annualized. The total rate of return is used by the Board to compare investment staff performance to various stock/bond indices selected by the Board.

FUNCTIONAL ORGANIZATIONAL CHART



ECONOMIC & FINANCIAL MARKETS OVERVIEW

The state's trust funds and most other state agency accounts are restricted by law to fixed-income type investments and are managed more for investment income rather than total rate of return. The income for these accounts is appropriated by the legislature and the amount available to appropriate is dependent upon the interest rate environment during the year.

By contrast, the Board has total discretion when investing the state's nine pension funds and may invest in any asset class deemed prudent. The nine pension fund portfolios posted an average total return of 9.05 percent for the fiscal year ended June 30, 2006, which exceeded the return assumptions for actuarial purposes of 7.75 percent and 8.0 percent. The returns benefited from continued healthy stock market gains while bond returns suffered from rising interest rates. The portfolios were positioned to benefit from the gain in public equities, with U.S. and international stocks representing the majority of holdings at 63.0 percent to 65.0 percent throughout the fiscal year. The domestic stock portfolios returned 8.1 percent, while international stocks enjoyed the strongest returns of 25.9 percent. Another significant contributor to overall returns was the approximate 5.0 percent weighting in private equity holdings which enjoyed a 17.4 percent return for the fiscal year. The portion allocated to bonds, which ranged from 28.0 percent to 30.0 percent, suffered from the general rise in interest rates during the year and posted a return of only 0.4 percent for the year.

This overall positive return for the year masked a volatile year for market returns and the economy. The fiscal year began with strong economic momentum during the summer of 2005, which was interrupted by the devastation of Hurricane Katrina and its disruption of energy markets. The ensuing spike in energy prices led to increased inflation and concern over the health of the economic expansion. The economy proved resilient and by the end of the fourth calendar quarter was back on track. Yet ongoing inflation concerns prompted the Fed to continue to hike short term rates, a consistent pattern that continued through the June meeting of the FOMC.

Global stock markets continued to post positive returns early in 2006, with international, especially emerging market stocks, posting dramatic returns. Smaller capitalization stocks continued their out performance versus larger more established blue chips. Surging commodity prices during this timeframe bolstered the concern that inflationary pressures were out of control, leading to upward pressure on interest rates. The market theme suddenly shifted in early May, with the leading asset classes that had posted the strongest returns during the prior months falling out of favor. Market volatility spiked and investors began to favor safer sectors of the market, including U.S. large cap stocks and high quality bonds. The second calendar quarter was marked by negative returns for many of the asset classes that had performed so strongly earlier in the year, particularly emerging market international stocks.

As we entered the new fiscal year in July the markets had stabilized and the focus seemed more one of concern over the longevity of the economic expansion. Signs of weakness in the residential housing market began to emerge that were expected to dampen consumer spending and lead to a slower economy if not a recession. The Fed recognized this risk and despite expressing concern with ongoing inflation risk decided to pause in its rate hike campaign in August. The economy indeed slowed during the third quarter with the initial report of GDP growth at only 1.6 percent. Still, business investment spending remains healthy and employment gains have continued despite the housing market decline. Stable to improving employment gains and the recent decline in energy prices are likely to bolster consumer confidence and few now expect a recession to develop anytime soon.

The U.S. economy may prove resilient, yet the jury is still out. As of this writing the balance of economic forces still suggest a weaker though positive outlook for the U.S. Fortunately the global economy is in better balance, with European and Asian countries experiencing improved economies that are expected to help offset any U.S. slack. The bond market in the U.S. appears to be discounting an actual ease in FED

interest rate policy by mid-2007, with Treasury yields now trading below the 5.25 percent Fed Funds rate for all maturities. Another sign of confidence in the economy is the relatively low risk implied in corporate bond spreads which have remained narrow for even low quality credits. This makes capital spending more affordable and has allowed business investment to provide an important ongoing support for our economy. Business confidence ultimately depends on corporate profits which are expected to continue to grow, albeit at a slower rate over the next year.

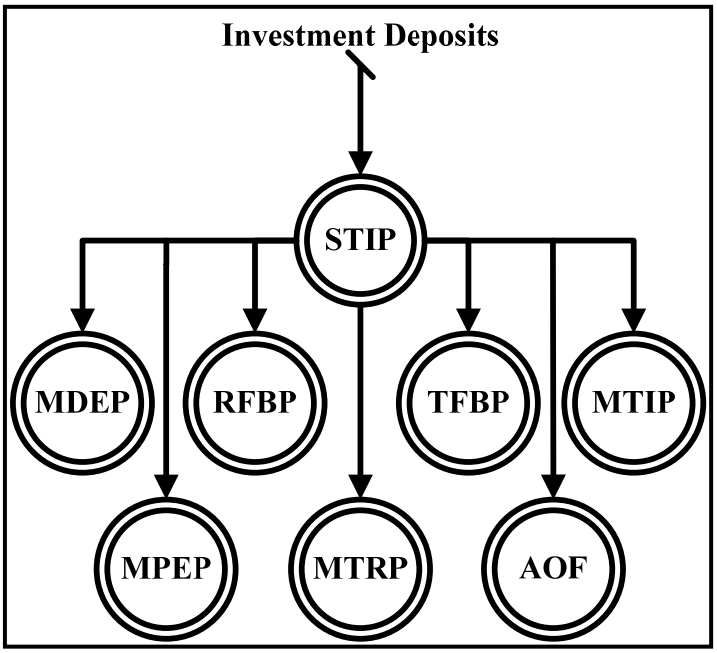
In summary, these economic conditions are generally supportive of further equity gains, while a more subdued inflationary environment should allow for stable to declining interest rates in the near term. Ultimately, the key to the next fiscal year's investment returns will depend on whether the economy can pause and then successfully continue a longer cycle of growth as it did in the mid 1990's.

Pension fund portfolio changes planned during the new fiscal year include ongoing diversification within existing asset classes as well as consideration of new asset classes as we seek incremental return within reasonable risk constraints. One recent initiative in this context has been the addition of real estate as a new alternative asset class. We also expect to continue to increase the allocation to private equity and venture capital investments given their long-term favorable return expectation as compared to public equities. As we implement changes in the portfolio structure we recognize the importance of doing so in a prudent manner and with an appropriate long term timeframe in mind.

TOTAL FUND

The Total Fund is comprised of all state and local government funds invested by the Board. Fund types invested include pensions, trusts, insurance, debt service, state agency and higher education operating accounts, and local government funds. Unless otherwise provided by law, the Board must invest all state funds. Local governments at their discretion may invest funds with the Board. (All local government funds are invested in the Short Term Investment Pool STIP).

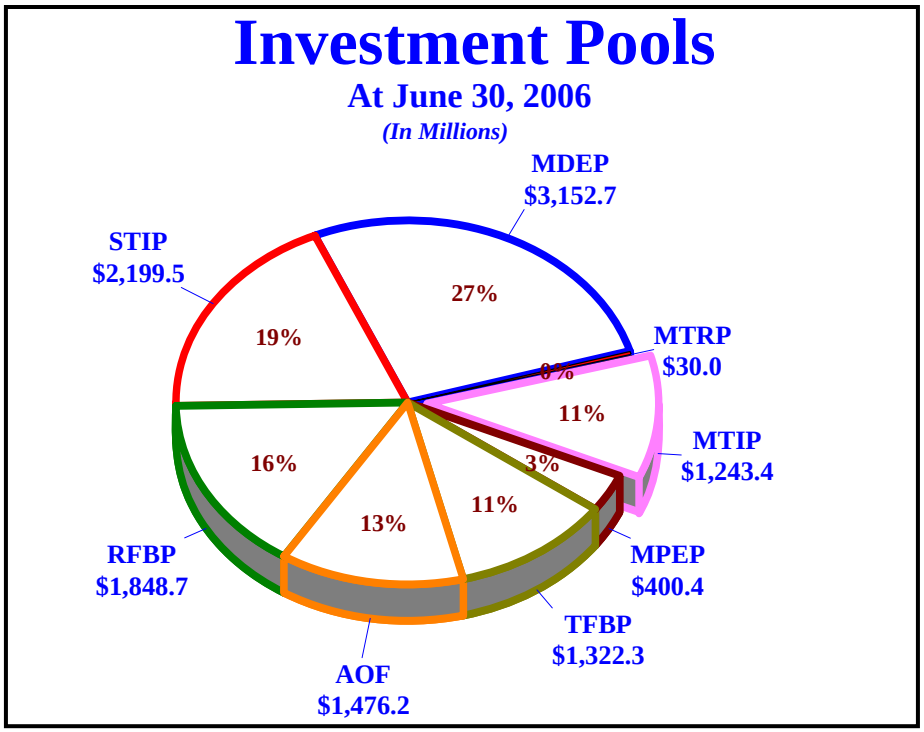
At June 30, 2006 the fair value of the Total Fund was $11.45 billion compared to $10.51 billion a year earlier. Fair values reflect the value of securities on June 30 as priced by the custodial bank, or other sources. During the year the Board invested 478 individual accounts, consisting of 298 state agency accounts and 180 local government accounts.



At year-end the Board managed 87.0 percent of the Total Fund in seven investment pools, which operate similar to mutual funds. All cash is initially deposited in STIP, which operates as a money market fund. STIP has a fixed $1.00 share value and participants may invest and withdraw funds with 24 hours notice.

Depending upon the investment parameters of individual accounts, some or most of the account balances may be transferred from STIP to other investment pools, which include equity, fixed-income, and alternative investments. If accounts are authorized to invest in longer-term investments but their investment parameters do not permit investment in the pools, they are invested in individual portfolios included in the All Other Funds (AOF).

Most state agency accounts authorized by law to retain interest earnings and all local government accounts are limited to STIP investments only. State agency accounts that invest in other investment pools or individual investment portfolios may maintain a minimum STIP balance for liquidity. Since the state's trust funds cannot be invested in equities, they are invested in the Trust Funds Bond Pool (TFBP) or individual fixed-income portfolios. Because there are no constitutional or legal restraints on the investment of state pension funds, they are invested in the Retirement Funds Bond Pool (RFBP), the Real Estate Pool (MTRP), and the three equity pools – the Montana Domestic Equity Pool (MDEP), the Montana International Equity Pool (MTIP), and the Montana Private Equity Pool (MPEP).



The Montana Domestic Equity Pool (MDEP) comprised 27.0 percent of the Total Portfolio on June 30, 2006. Pool securities include actively-managed large and small cap domestic stock and passively-managed large and mid-cap domestic stock. Thirty four percent of the pool is managed by Board staff. The remainder is externally-managed. The nine pension funds comprise 99.9 percent of the pool's Net Asset Value. Dividends are distributed monthly and capital gains/losses are retained in the pool.

The Retirement Funds Bond Pool (RFBP), comprising 16.0 percent of the Total Portfolio on June 30, is limited to pension funds only and all nine funds participate. Pool securities are a mix of longer-term investment grade corporate bonds and U.S. government bonds. All bonds are U.S. dollar denominated and the pool is managed by Board staff. Income is distributed monthly and capital gains/losses are distributed periodically.

The Short Term Investment Pool (STIP) comprised 19.0 percent of the Total Portfolio on June 30. The pool operates as a money market fund with a constant share value of $1.00. There were 478 participants in the pool in 2006, including 180 local governments. Pool securities consist of investment grade short-term securities. The pool is managed by Board staff and income is distributed monthly.

The Trust Funds Bond Pool (TFBP) accounted for 11.0 percent of the Total Portfolio on June 30. The 25 participants in this pool are a mix of trust funds and university funds that may be invested long term. The pool securities are similar to RFBP securities and the pool is managed by Board staff. Income is distributed monthly and capital gains/losses are distributed periodically.

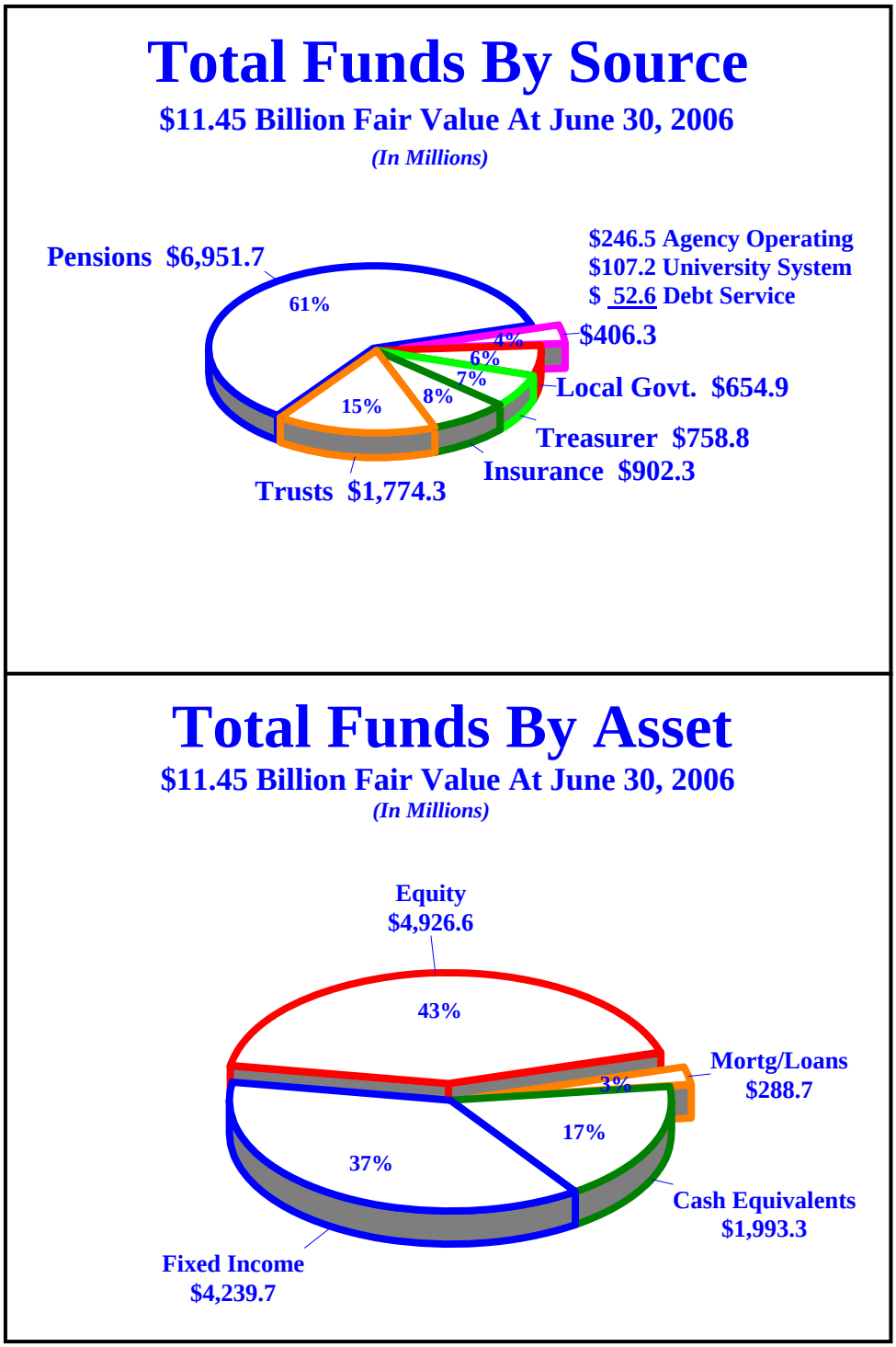
The Montana International Equity Pool (MTIP), comprising 11.0 percent of the Total Portfolio on June 30, is limited to pension funds only and all nine funds participate. Pool securities consist of both actively-managed and passively-managed Europe and Pacific Basin equity securities. The pool is managed by contracted external managers. Dividends are distributed monthly and capital gains/losses are retained in the pool.

The Montana Private Equity Pool (MPEP), comprising 3.0 percent of the Total Portfolio on June 30, is also limited to pension funds only and all nine funds participate. The Board contracts with several private equity managers to invest in venture capital, leveraged buy-out, and other types of private equity investments. Income is distributed periodically and capital gains/losses are retained in the pool.

The Montana Real Estate Pool (MTRP), a newly created pool, was invested totally in STIP as of June 30, but will grow rapidly as external managers are hired and begin to draw down capital. The managers

will invest in core real estate, value-added real estate, and opportunistic real estate. In the "risk/return" spectrum core real estate is the lowest, while opportunistic real estate is the highest. The pool is limited to pension funds only and all nine funds participate.

The All Other Fund (AOF) includes all other investments not held in the seven investment pools. Securities include bonds, mortgages/loans, a passive index stock fund, and direct real estate.



The pie charts show the Total Fund by source and asset type at June 30, 2006. The nine pension funds comprised 61.0 percent of the Total Fund at fair value, while state trusts accounted for 15.0 percent.

The insurance portfolio is composed primarily of the State Fund (New Workers Compensation) and the Old Worker's Compensation Fund.

The Treasurer's Fund is essentially the state checking account that includes all state agency funds not authorized to retain their interest earnings. Interest earnings are deposited in the state general fund.

Local government investments in STIP comprised 6.0 percent of the Total Fund.

Except for $83.4 million of equity investments held by the State Fund and a handful of small trusts and endowments, the equity portfolio is held by the nine pension funds.

Mortgages and loans consist of residential mortgages held in pension fund portfolios and loans from the Coal Tax Trust to Montana businesses.

The Total Fund portfolio by major fund type and asset type are shown in the tables on the next page. The Total Fund invested balances and income history are shown on Page A – 14 in Appendix A.

Total Fund By Source And Asset Allocation At Fair Value On June 30, 2006

Fund Type	Cash Equivalents $	Domestic Stock $	Fixed Income $	Mortgage/ Loans	Other Equity (1)	Total
Pensions	181,985,481	3,150,652,635	1,848,687,001	79,808,901	1,690,560,804	6,951,694,822
Trusts	129,162,050	897,071	1,435,361,928	208,928,654		1,774,349,703
Insurance	100,281,880		718,685,555		83,377,362	902,344,797
Treasurer's	553,634,422		205,125,719			758,760,140
Local Gov.	654,914,928					654,914,928
Agency Cash	234,673,805		11,812,024			246,485,828
Universities	86,013,214	1,110,293	20,060,530			107,184,037
Debt Service	52,621,117					52,621,117
Total	1,993,286,896	3,152,659,999	4,239,732,756	288,737,555	1,773,938,166	11,448,355,373

(1) Includes International Stock, Equity Index Fund, Private Equity, and Real Estate

Total Fund Book/Fair Values of Securities Held At June 30, 2006

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Domestic Stocks/Indexes	2,700,870,570	3,152,703,754	451,833,184	25.4	27.5
Corporate Bonds	2,508,261,919	2,496,843,208	(11,418,711)	23.5	21.8
US Government-Backed Bonds	2,312,313,385	2,277,637,339	(34,676,046)	21.7	19.9
Commercial Paper	1,421,275,801	1,421,008,799	(267,002)	13.3	12.4
International Stocks	913,072,853	1,241,048,341	327,975,488	8.6	10.8
Mortgages\Loans	289,679,158	288,737,555	(941,603)	2.7	2.5
Private Equity	353,158,397	400,727,301	47,568,904	3.3	3.5
BGI Equity Index	68,406,676	83,377,362	14,970,686	0.6	0.7
Repurchase Agreements	19,359,483	19,359,483	0	0.2	0.2
Equity Real Estate	46,512,350	46,728,086	215,736	0.4	0.4
Foreign Government Bonds	14,899,615	14,550,000	(349,615)	0.1	0.1
State/Local Government Bonds	3,791,472	3,824,330	32,858	0.0	0.0
Total	10,651,601,681	11,446,545,559	794,943,878	100.0	100.0

Total Fund Annual Change At June 30 By Asset Type

Investment Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% of Change
Domestic Stocks/Indexes	2,700,870,570	25.4	2,609,202,578	26.7	91,667,992	3.5
Corporate Bonds	2,508,261,919	23.5	2,290,612,792	23.5	217,649,127	9.5
US Government-Backed Bonds	2,312,313,385	21.7	2,024,200,870	20.7	288,112,515	14.2
Commercial Paper	1,421,275,801	13.3	1,249,740,444	12.8	171,535,357	13.7
International Stocks	913,072,853	8.6	840,131,984	8.6	72,940,869	8.7
Mortgages\Loans	289,679,158	2.7	305,293,033	3.1	(15,613,875)	(5.1)
Private Equity	353,158,397	3.3	272,828,947	2.8	80,329,450	29.4
BGI Equity Index	68,406,676	0.6	68,406,676	0.7	0	0.0
Repurchase Agreements	19,359,483	0.2	62,124,221	0.6	(42,764,738)	(68.8)
Equity Real Estate	46,512,350	0.4	16,316,230	0.2	30,196,121	185.1
Foreign Government Bonds	14,899,615	0.1	14,886,316	0.2	13,300	0.1
State/Local Government Bonds	3,791,472	0.0	12,122,489	0.1	(8,331,016)	(68.7)
Total Investments	10,651,601,681	100.0	9,765,866,580	100.0	885,735,101	9.1

The tables on the next page show:

- The fair value of individual funds in descending order,
- Income generated by major funds, and
- The total rates of returns of major funds.

Total Fund By Fund At Fair Value On June 30, 2006

Fund	Fair Value $	Fund	Fair Value $
Public Employees' Retirement	3,510,451,899	UM Other Funds	35,166,667
Teachers' Retirement	2,721,219,510	Other Trusts STIP	30,194,591
Treasurer's Fund	758,760,140	FWP License Account	28,028,357
State Fund Insurance	751,253,688	Montana Pole	27,830,649
Local Government STIP	654,914,928	Treasure State Water	26,532,728
Permanent Coal Tax Trust	537,109,447	Vol. Firefighters' Retirement	23,433,584
Trust & Legacy Fund	422,820,393	Big Sky Economic Devlp Fund	22,510,183
St Agency Operations STIP	218,457,472	Parks Coal Trust	16,796,253
Police Officers' Retirement	169,416,551	UCRFB Reserve Fund	15,807,135
Sheriffs' Retirement	165,117,982	Higher Education STIP	13,353,870
Firefighters' Retirement	161,465,456	FWP Mitigation	11,243,591
UCFRB Restoration Fund	154,938,752	Hail Insurance	9,448,185
Treasure State Endowment	132,298,566	Cultural Coal Tax Trust	8,244,488
Resource Indemnity Trust	100,688,614	Zortman/Landusky	8,022,268
Highway Patrol Retirement	88,607,707	Wildlife Habitat Trust	7,044,040
Streamside Tailings	85,286,312	Abandoned Mines	5,560,834
Highway 93 Bond	83,594,269	FWP Real Property	4,675,333
Tobacco Trust	65,741,029	Weed Control Trust	4,633,672
Game Wardens' Retirement	59,396,228	MT Tech UM Agency	3,040,286
Montana State University	55,487,659	Subsequent Injury	1,540,190
Insurance STIP	52,669,390	Zort/Land LT H20 Trust	1,221,486
Debt Service STIP	52,621,117	Other Trusts MDEP	897,071
Judges' Retirement	52,585,905	Other Trusts TFBP	658,000
Old Fund Insurance	51,353,551	Higher Education MDEP	135,554
Group Benefits Insurance	36,079,792		
		Total	11,448,355,373

Total Fund Income

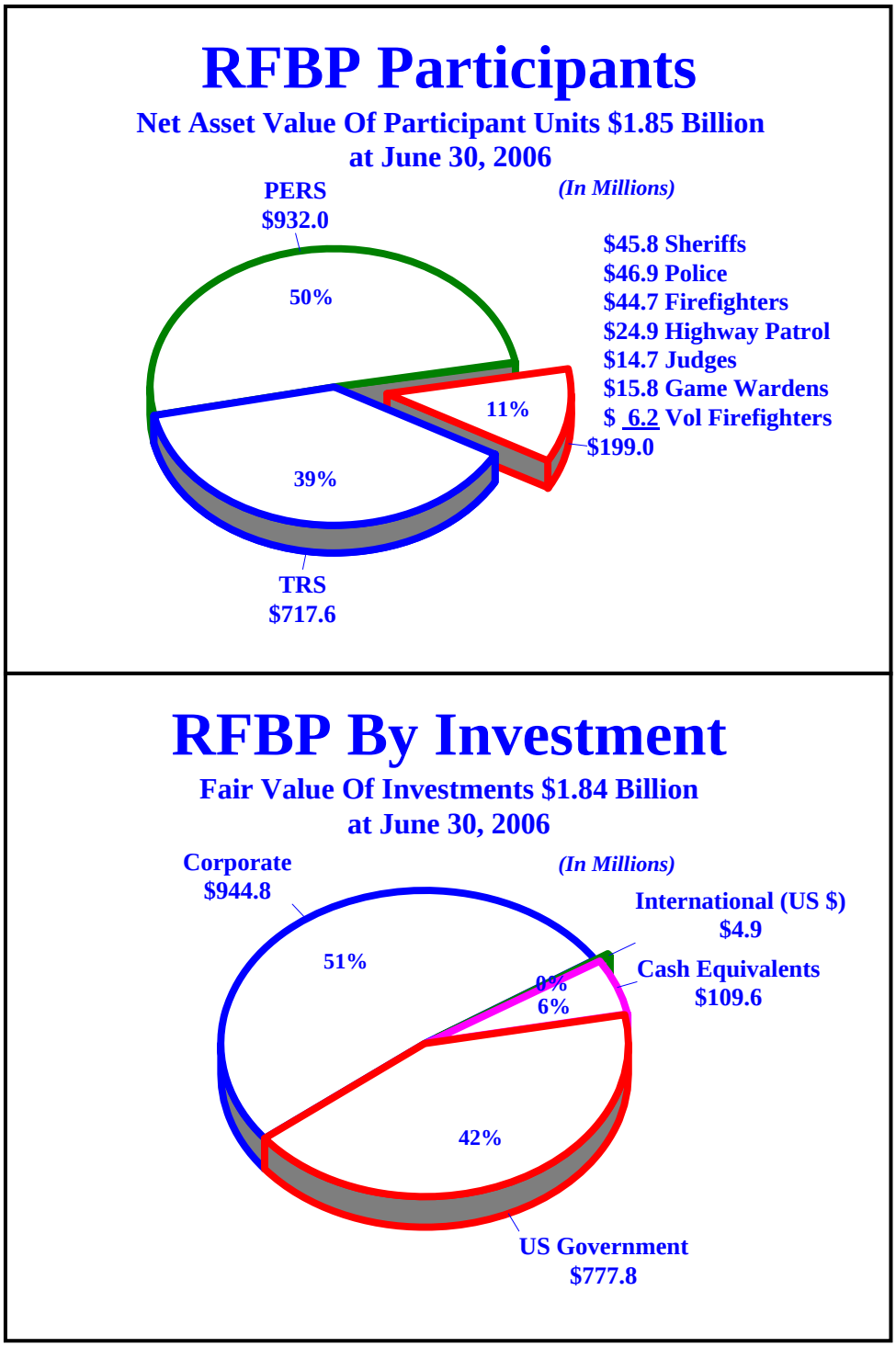
Fund Type	2006 $ Income	% of Total	2005 $ Income	% of Total	$ Change	% of Change
Public Employees' Retirement	108,147,805	27.0	93,137,953	25.8	15,009,852	16.1
Teachers' Retirement	71,050,251	17.8	75,845,392	21.0	(4,795,141)	(6.3)
Permanent Coal Tax Trust (1)	41,757,043	10.4	46,169,407	12.8	(4,412,364)	(9.6)
State Fund Insurance	32,214,254	8.1	30,226,050	8.4	1,988,204	6.6
Trust & Legacy Fund	24,836,368	6.2	28,375,979	7.9	(3,539,611)	(12.5)
Local Governments STIP	24,055,083	6.0	12,419,504	3.4	11,635,578	93.7
Other Managed Portfolios	21,011,972	5.3	16,493,466	4.6	4,518,506	27.4
State Agency/Higher Ed. STIP	20,265,540	5.1	8,719,704	2.4	11,545,836	132.4
Other Retirement Systems	19,560,335	4.9	18,452,543	5.1	1,107,792	6.0
Treasurer's Fund	18,631,288	4.7	10,046,532	2.8	8,584,756	85.4
UCFRB Restoration Fund	9,665,894	2.4	10,956,185	3.0	(1,290,291)	(11.8)
Resource Indemnity Trust	5,915,562	1.5	6,901,925	1.9	(986,363)	(14.3)
Old Fund Insurance	2,884,406	0.7	3,184,749	0.9	(300,343)	(9.4)
Total	399,995,799	100.0	360,929,390	100.0	39,066,410	10.8

(1) Includes Treasure State Endowment, Treasure State Regional Water and Big Sky Economic Development

Major Funds 2006 Total Rates Of Return Compared to Index

Fund Name	% Return	Index (1)	Index % Return	Return +/- Index
Public Employees' Retirement	9.07	Composite	8.82	0.25
Teachers' Retirement	9.05	Composite	8.81	0.24
Coal Tax Permanent Fund	2.67			
State Fund Insurance	1.62	Composite	0.88	0.74
Trust & Legacy Fund	0.47			
Treasurer's Fund	3.47			
Resource Indemnity Trust	0.41			

(1) An Index Composite paralleling the Fund's asset allocation at fair value



RETIREMENT FUNDS BOND POOL (RFBP)

On April 1, 1995, all fixed-income investments held by the nine pension funds were transferred to the newly-created Retirement Funds Bond Pool (RFBP). Each pension fund received shares in the pool equal in value to the fair value of its fixed-income portfolio on the date of the transfer.

The upper graph depicts the net asset value of the pool at June 30. The lower graph represents the fair value of the securities held by the pool. Any difference in the net asset value and the securities held is the receivables/payables and/or cash included in the net asset value of the pool.

The RFBP distributed $105.1 million in income to participants in 2006, compared to $118.6 million in 2005. Income distributed includes, interest accruals, discount/premium, and realized gains/losses.

The RFBP financial statement, which lists the individual securities in the portfolio, is shown on Page B-1 in Appendix B.

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and
- The securities portfolio's total rate of return.

RFBP Annual Change At June 30

Investment Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% Change
Corporate Bonds (Rated)	932,792,638	50.3	838,067,187	47.8	94,725,451	11.3
Corporate Bonds (Unrated)	14,035,771	0.8	19,289,266	1.1	(5,253,495)	(27.2)
Foreign Government Bonds	4,966,538	0.3	4,962,105	0.3	4,433	0.1
U.S. Govt Direct-Backed Bonds	54,701,226	3.0	180,694,406	10.3	(125,993,179)	(69.7)
U.S. Govt Indirect-Backed	736,638,007	39.8	587,410,682	33.5	149,227,326	25.4
Total Fixed Income	1,743,134,181	94.1	1,630,423,646	93.0	112,710,535	6.9
Short Term Investment Pool	109,116,501	5.9	112,477,995	6.4	(3,361,494)	(3.0)
State Street Repurchase Agr.	447,861	0.0	9,923,600	0.6	(9,475,739)	(95.5)
TotalCash Equivalents	109,564,362	5.9	122,401,595	7.0	(12,837,233)	(10.5)
Total	1,852,698,544	100.0	1,752,825,241	100.0	99,873,302	5.7

RFBP Book/Fair Values At June 30, 2006

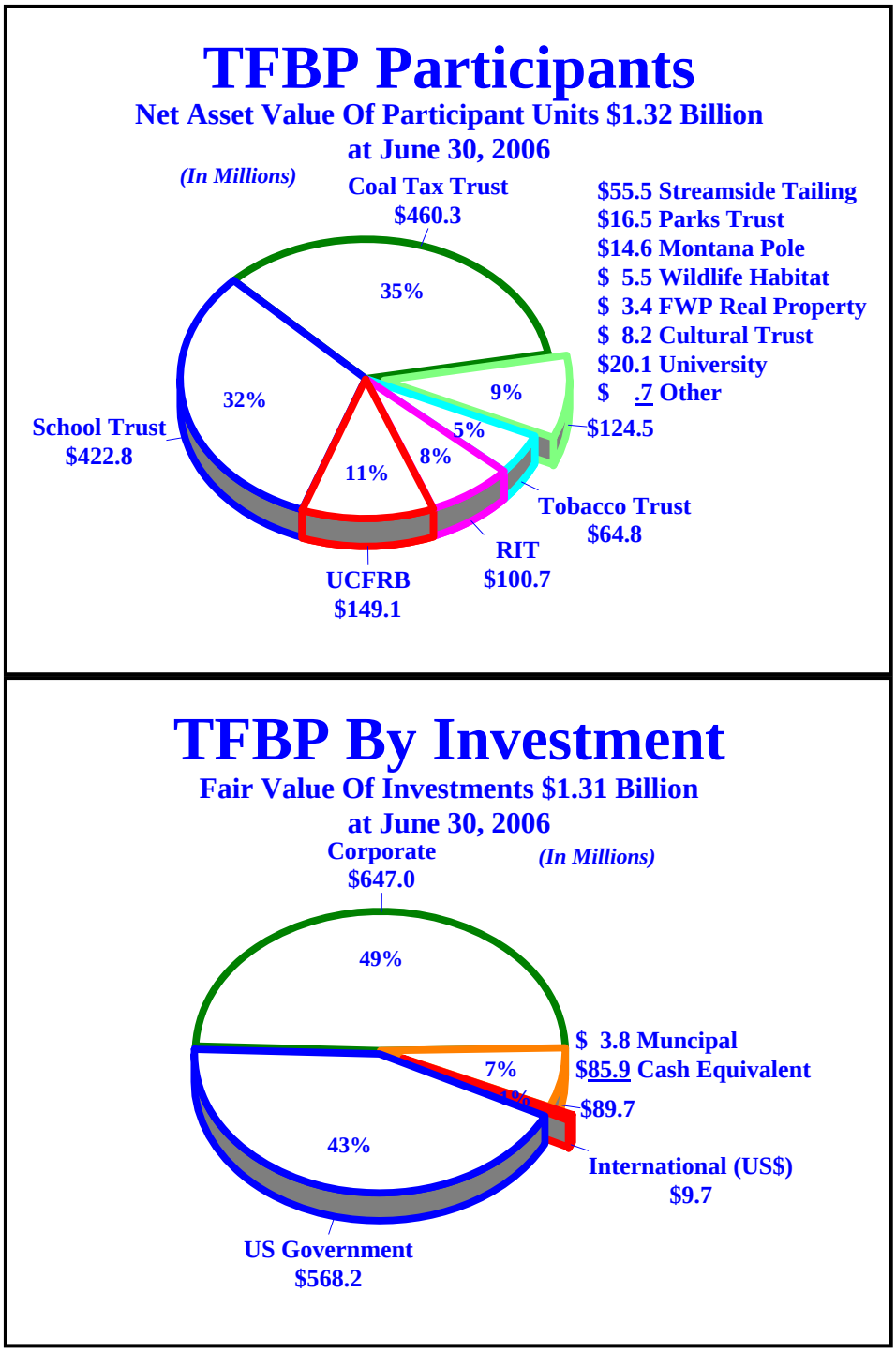
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Corporate Bonds (Rated)	932,792,638	930,859,199	(1,933,438)	50.3	50.7
Corporate Bonds (Unrated)	14,035,771	13,928,888	(106,883)	0.8	0.8
Foreign Government Bonds	4,966,538	4,850,000	(116,538)	0.3	0.3
U.S. Govt Direct-Backed Bonds	54,701,226	55,508,068	806,841	3.0	3.0
U.S. Govt Indirect-Backed	736,638,007	722,333,929	(14,304,079)	39.8	39.3
Total Fixed Income	1,743,134,181	1,727,480,084	(15,654,097)	94.1	94.0
Short Term Investment Pool	109,116,501	109,116,501	0	5.9	5.9
State Street Repurchase Agr.	447,861	447,861	0	0.0	0.0
TotalCash Equivalents	109,564,362	109,564,362	0	5.9	6.0
Total	1,852,698,544	1,837,044,446	(15,654,097)	100.0	100.0

RFBP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2006	0.36	Lehman Brothers Aggregate	(0.81)	1.17
3 Year Annualized Average	3.12	Lehman Brothers Aggregate	2.05	1.07
5 Year Annualized Average	6.74	Lehman Brothers Aggregate	4.97	1.77
10 Year Annualized Average	7.27	Lehman Brothers Aggregate	6.22	1.05

INVESTMENT OBJECTIVE/CONSTRAINTS

- Diversified portfolio, producing a total rate of return exceeding the Lehman Brothers Aggregate Bond Index over a five-year rolling period.
- Above average risk tolerance, especially long-term investment risk.
- Low liquidity requirements, except for investment purposes.
- Securities purchased are investment-grade as per Standard & Poor's or Moody's rating services with maturities not exceeding 40 years.
- No additional purchases permitted if credit risk exceeds two percent.
- Mortgage-backed securities purchased must be backed by the US Government or its agencies.
- All securities must pay in US Dollars.



TRUST FUNDS BOND POOL (TFBP)

On October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to the newly-created Trust Funds Bond Pool (TFBP). Each trust fund received shares in the pool equal in value to the fair value of their fixed-income portfolio on the date of the transfer.

The upper graph depicts the net asset value of the pool at June 30. The lower graph represents the fair value of the securities held by the pool. Any difference in the net asset value and the securities held is due to receivables/payables and/or cash included in the net asset value.

The TFBP distributed $75.5 million in income to participants in 2006, compared to $85.3 million in 2005. Income distributed includes interest accruals, discount/premium, and realized gains/losses.

The TFBP financial statement, which lists the individual securities in the portfolio, is shown on Page B-12 in Appendix B.

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and
- The securities portfolio's total rate of return.

TFBP Annual Change At June 30

Investment Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% Change
Corporated Bonds (Rated)	642,663,155	48.6	624,287,960	49.1	18,375,195	2.9
Corporate Bonds (Unrated)	3,756,101	0.3	5,956,312	0.5	(2,200,210)	(36.9)
Foreign Government Bonds	9,933,077	0.8	9,924,211	0.8	8,866	0.1
U.S. Govt Direct-Backed Bonds	58,199,898	4.4	114,906,104	9.0	(56,706,206)	(49.4)
U.S. Govt Indirect-Backed	518,980,161	39.2	441,037,218	34.7	77,942,943	17.7
Municipal Govt Bonds (Rated)	1,135,000	0.1	0	0.0	1,135,000	N/A
Municipal Govt Bonds (Unrated)	2,656,472	0.2	6,122,489	0.5	(3,466,016)	(56.6)
Total Fixed Income	1,237,323,864	93.5	1,202,234,293	94.6	35,089,571	2.9
Short Term Investment Pool	85,582,770	6.5	64,746,934	5.1	20,835,836	32.2
State Street Repurchase Agr.	268,717	0.0	3,307,867	0.3	(3,039,150)	(91.9)
TotalCash Equivalents	85,851,487	6.5	68,054,800	5.4	17,796,686	26.2
Total Investments	1,323,175,351	100.0	1,270,289,093	100.0	52,886,258	4.2

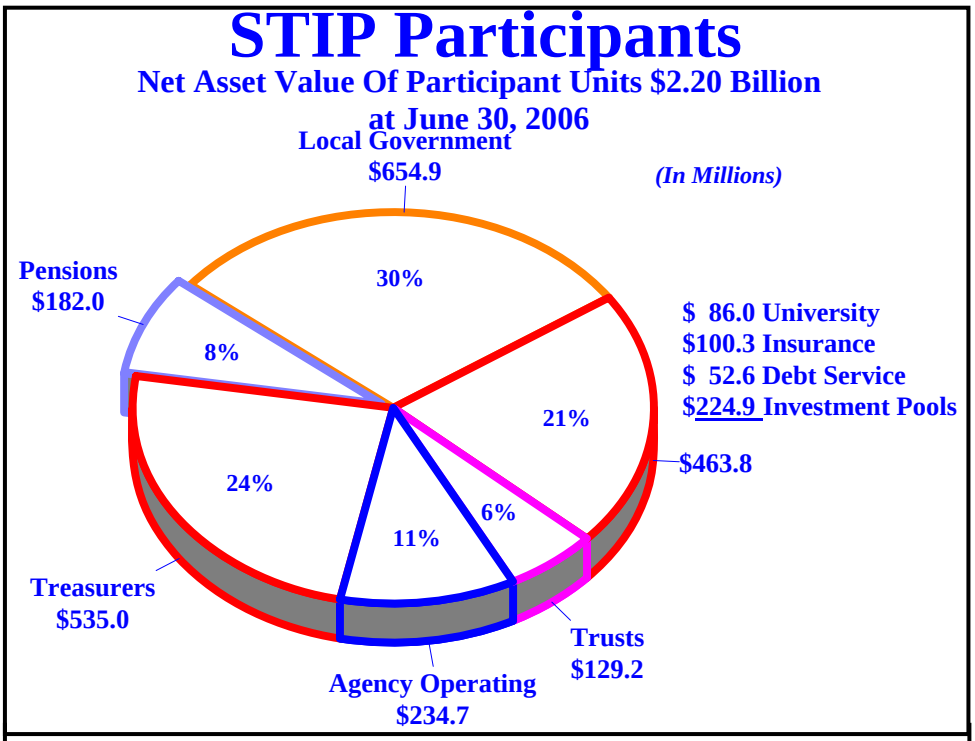
TFBP Book/Fair Values At June 30, 2006

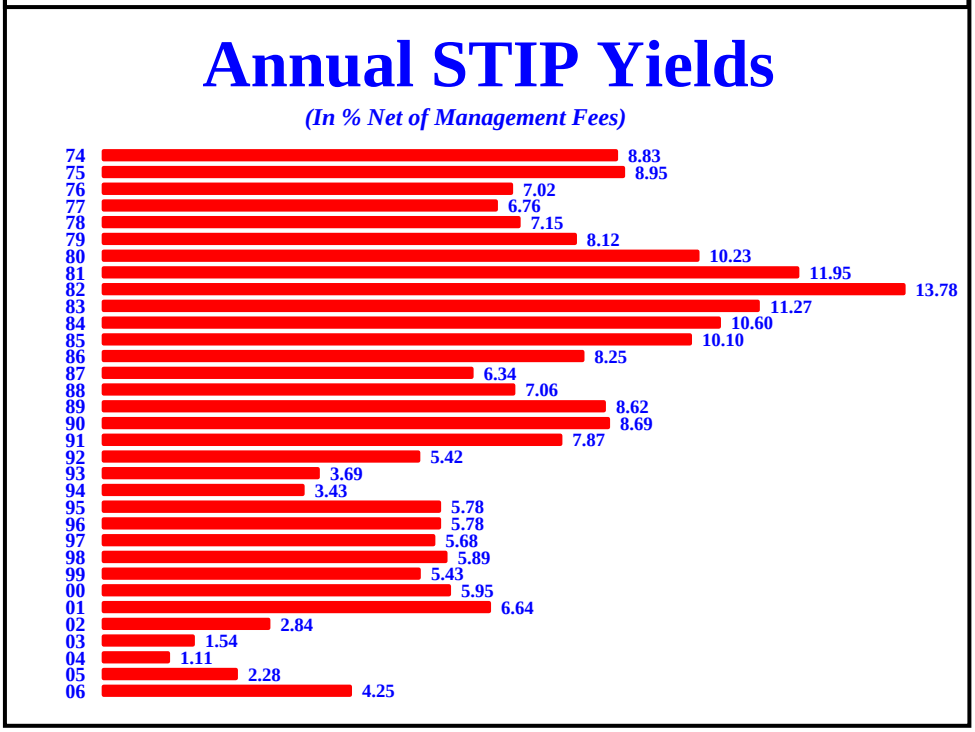
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Corporated Bonds (Rated)	642,663,155	643,216,700	553,546	48.6	48.9
Corporate Bonds (Unrated)	3,756,101	3,812,700	56,599	0.3	0.3
Foreign Government Bonds	9,933,077	9,700,000	(233,077)	0.8	0.7
U.S. Govt Direct-Backed Bonds	58,199,898	58,629,125	429,227	4.4	4.5
U.S. Govt Indirect-Backed	518,980,161	509,562,146	(9,418,015)	39.2	38.8
Municipal Govt Bonds (Rated)	1,135,000	1,167,858	32,858	0.1	0.1
Municipal Govt Bonds (Unrated)	2,656,472	2,656,472	0	0.2	0.2
Total Fixed Income	1,237,323,864	1,228,745,001	(8,578,863)	93.5	93.5
Short Term Investment Pool	85,582,770	85,582,770	0	6.5	6.5
State Street Repurchase Agr.	268,717	268,717	0	0.0	0.0
TotalCash Equivalents	85,851,487	85,851,487	0	6.5	6.5
Total Investments	1,323,175,351	1,314,596,488	(8,578,863)	100.0	100.0

TFBP Total Rates of Returns Versus Benchmark				
Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2006	0.49	Lehman Brothers Aggregate	(0.81)	1.30
3 Year Annualized Average	3.35	Lehman Brothers Aggregate	2.05	1.30
5 Year Annualized Average	6.59	Lehman Brothers Aggregate	4.97	1.62
10 Year Annualized Average	7.17	Lehman Brothers Aggregate	6.22	0.95

INVESTMENT OBJECTIVE/CONSTRAINTS

- Diversified portfolio, producing a total rate of return exceeding the Lehman Brothers Aggregate Bond Index over a five-year rolling period.
- Above average risk tolerance, especially long-term investment risk.
- Low liquidity requirements, except for investment purposes.
- Securities purchased are investment-grade as per Standard & Poor's or Moody's rating services with maturities not exceeding 40 years.
- No additional purchases permitted if credit risk exceeds two percent.
- Mortgage-backed securities purchased must be backed by the US Government or its agencies.
- All securities must pay in US Dollars.
- Current income is important since it is distributed to participants.





SHORT TERM INVESTMENT POOL (STIP)

The Short Term Investment Pool (STIP), created in 1974, provides participants access to a short-term money market fund. Shares are fixed at $1.00, fractional shares may be purchased, and participants may buy or sell shares with one business day's notice. Income is distributed on the first day of the month.

The upper graph depicts the net asset value of the pool at June 30. The lower graph shows the historical yield to participants based on distributed income after management and custody fees are deducted.

There were 478 accounts invested in STIP during the year, consisting of 298 state accounts and 180 local government accounts. The STIP distributed $70.4 million to participants in 2006, compared to $31.6 million in 2005.

The STIP financial statement, which lists the individual securities in the portfolio, is shown on Page B-24 in Appendix B.

The tables on the next page show:

- The changes in Net Asset Value by major participant type,
- The book and fair value of the securities portfolio by major asset type, and
- The securities portfolio's total rate of return.

STIP NAV Annual Change By Participant At June 30

Fund Type	2006 $ NAV (1)	% of Total	2005 $ NAV (1)	% of Total	$ Change	% Change
Local Governments	654,914,928	29.8	580,347,134	33.3	74,567,794	12.8
Treasurer's Fund	534,991,517	24.3	348,097,292	20.0	186,894,225	53.7
Pension Funds	181,985,481	8.3	101,126,032	5.8	80,859,449	80.0
Trust Funds	129,162,050	5.9	177,868,468	10.2	(48,706,418)	(27.4)
Agency Operating	234,673,805	10.7	171,510,575	9.9	63,163,230	36.8
University System	86,013,214	3.9	65,799,309	3.8	20,213,906	30.7
Insurance Funds	100,281,880	4.6	102,458,885	5.9	(2,177,005)	(2.1)
Investment Pools	224,858,961	10.2	177,224,929	10.2	47,634,032	26.9
Debt Service Funds	52,621,117	2.4	16,688,277	1.0	35,932,840	215.3
Total	2,199,502,952	100.0	1,741,120,900	100.0	458,382,052	26.3

(1) Net Asset Value

STIP Book/Fair Values At June 30, 2006

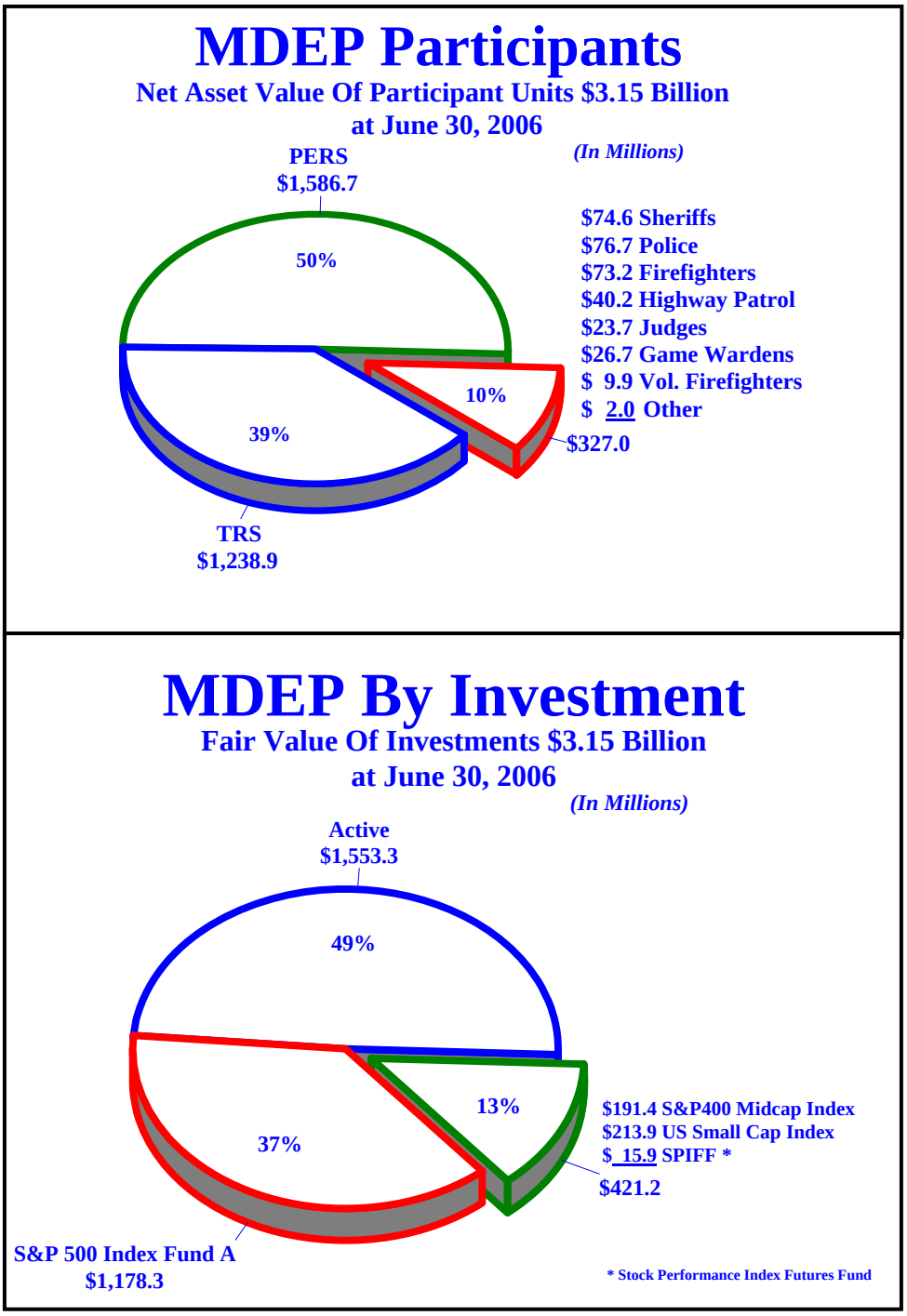
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Commercial Paper	1,421,275,801	1,421,008,799	(267,002)	64.9	64.9
Repurchase Agreements	0	0	0	0.0	0.0
Corporate Fixed	295,001,150	293,960,550	(1,040,600)	13.5	13.4
U.S. Govt Indirect-Backed	249,499,047	248,884,529	(614,518)	11.4	11.4
Variable-Rate (Floating-Rate)	224,996,794	224,991,750	(5,044)	10.3	10.3
Total	2,190,772,793	2,188,845,628	(1,927,165)	100.0	100.0

STIP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2006	4.29	91-Day T Bill x 105%	4.15	0.14
3 Year Annualized Average	2.56	91-Day T Bill x 105%	2.43	0.13
5 Year Annualized Average	2.42	91-Day T Bill x 105%	2.27	0.15
10 Year Annualized Average	4.17	91-Day T Bill x 105%	3.86	0.31

INVESTMENT OBJECTIVE/CONSTRAINTS

- Diversified money market fund, producing a total rate of return 105 percent of the 91-Day US Treasury Bill.
- Highly liquid portfolio.
- Maximum security maturity of 397 days.
- Participants include state agencies, local governments and school districts.
- Risk tolerance is low.



MONTANA DOMESTIC EQUITY POOL (MDEP)

The Montana Domestic Equity Pool (MDEP) was created in May 1, 2003, when all investments held in the Montana Common Stock Pool, the Standard and Poor's 500 Index Fund A and the Dimensional Fund Advisors US Small Cap Index were combined to create the pool.

The upper graph shows the net asset of the pool at June 30. The lower graph shows the fair value of investments held by active and passive management.

The MDEP distributed $25.7 million of income to participants in 2006, compared to $36.6 million in 2005. Income distributed includes dividends, security lending and miscellaneous income. All realized capital gains and losses are retained in the pool.

The MDEP financial statement, which lists the individual securities in the portfolio, is shown on Page B – 32 in Appendix B.

The tables on the following pages show:

- The 10-largest holdings in the actively-managed portfolio,
- Changes in the fair value of the securities portfolio by sector,
- The book value and fair value of the securities portfolio, and
- The active-managed securities portfolio's total rate of return.

Montana Common Stock Pool 10 Largest Holdings as of June 30, 2006

Company	Shares	Fair $ Value	% of MTCP
General Electric Co	1,801,000	59,360,960	5.6
Exxon Mobil Corp	628,000	38,527,800	3.6
Citigroup Inc	723,000	34,877,520	3.3
Johnson & Johnson	487,000	29,181,040	2.8
Bank America Corp	550,000	26,455,000	2.5
JPMorgan Chase & Co	562,000	23,604,000	2.2
Procter and Gamble Co	422,000	23,463,200	2.2
Microsoft Corp	952,000	22,181,600	2.1
Altria Group Inc	291,000	21,368,130	2.0
Wells Fargo & Co	300,000	20,124,000	1.9
Total Ten Largest Holdings	6,716,000	299,143,250	28.3
Total MTCP		1,058,743,931	

MDEP Sector and Active/Passive Management Change At June 30

Sector	2006 $ Fair Value	% of Total	2005 $ Fair Value	% of Total	$ Change	% Change
S & P 500 Index (Passive)	1,178,260,318	37.4	1,132,427,185	37.6	45,833,133	4.0
US Small Cap Enhanced Index	213,902,449	6.8	243,808,328	8.1	(29,905,879)	(12.3)
Financials	211,201,870	6.7	309,552,797	10.3	(98,350,927)	(31.8)
Information Technology	200,273,570	6.4	281,910,831	9.4	(81,637,261)	(29.0)
S & P 400 Midcap Index	191,367,605	6.1	106,616,769	3.5	84,750,836	79.5
Health Care	163,354,840	5.2	254,596,685	8.5	(91,241,845)	(35.8)
Industrials	131,843,140	4.2	180,803,250	6.0	(48,960,110)	(27.1)
WAMCO Large Cap Enh Index	125,424,632	4.0	0	0.0	125,424,632	N/A
T Rowe Price Large Cap Enh Index	124,491,529	3.9	0	0.0	124,491,529	N/A
Goldman Large Cap Enh Index	124,463,571	3.9	0	0.0	124,463,571	N/A
INTECH Large Cap Enh Index	124,358,200	3.9	0	0.0	124,358,200	N/A
Energy	118,413,510	3.8	166,878,186	5.5	(48,464,676)	(29.0)
Consumer Discretionary	97,555,080	3.1	149,329,272	5.0	(51,774,192)	(34.7)
Consumer Staples	90,079,850	2.9	105,701,233	3.5	(15,621,383)	(14.8)
Telecommunication Services	31,558,710	1.0	21,993,600	0.7	9,565,110	43.5
SPIFF (1)	15,902,570	0.5	27,335,387	0.9	(11,432,817)	(41.8)
Materials	10,252,310	0.3	30,960,408	1.0	(20,708,098)	(66.9)
Total	3,152,703,754	100.0	3,011,913,931	100.0	140,789,823	4.7

(1) Stock Performance Index Futures Fund - Includes Money Market & Cash

MDEP Book/Fair Values At June 30, 2006

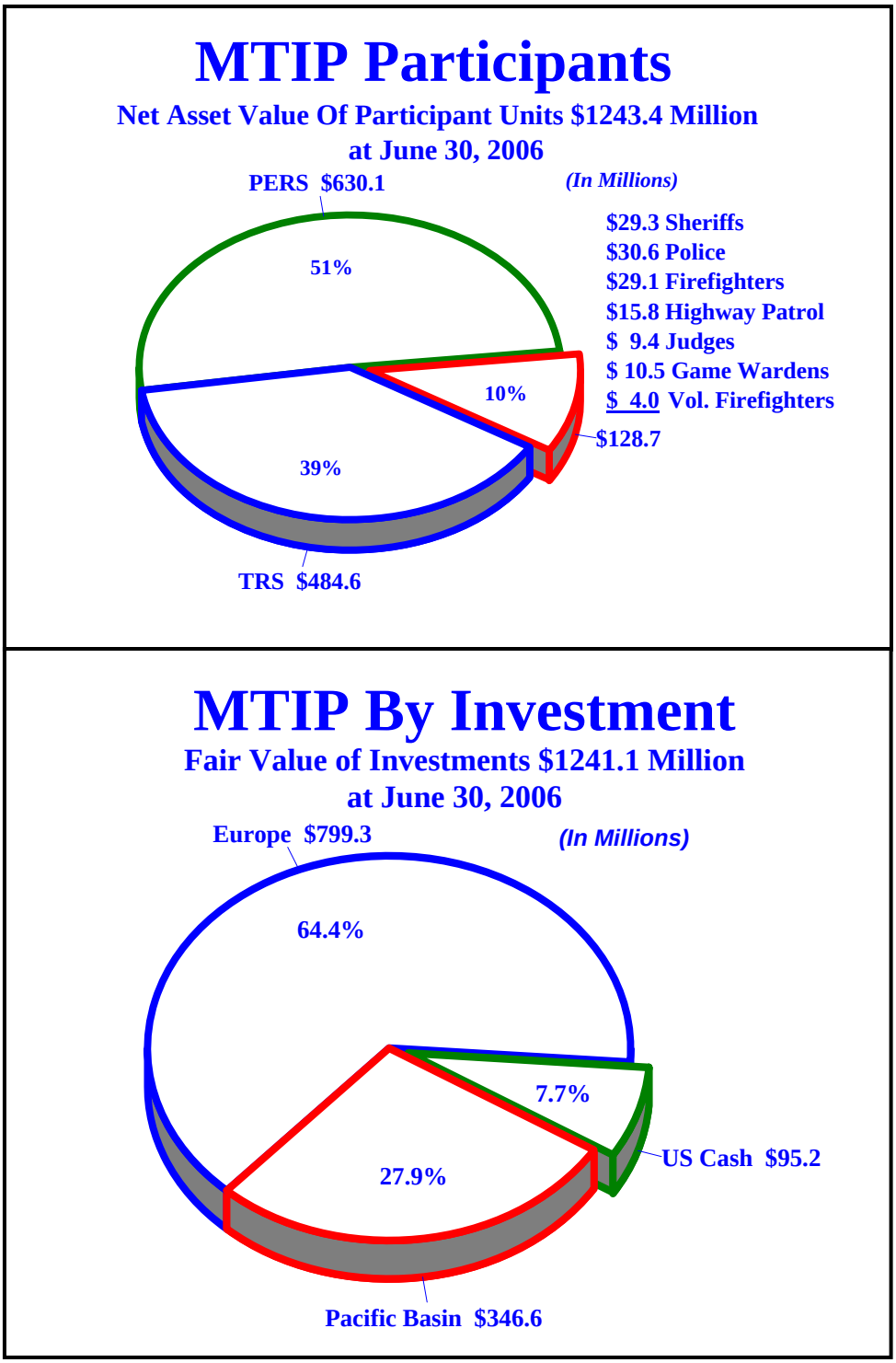
Sector	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
S & P 500 Index (Passive)	995,420,725	1,178,260,318	182,839,594	36.9	37.4
US Small Cap Enhanced Index	133,993,753	213,902,449	79,908,696	5.0	6.8
Financials	155,806,506	211,201,870	55,395,364	5.8	6.7
Information Technology	197,587,602	200,273,570	2,685,968	7.3	6.4
S & P Midcap Index	165,000,000	191,367,605	26,367,605	6.1	6.1
Health Care	149,143,551	163,354,840	14,211,289	5.5	5.2
Industrials	99,162,406	131,843,140	32,680,734	3.7	4.2
WAMCO Large Cap Enh Index	126,937,301	125,424,632	(1,512,668)	4.7	4.0
T Rowe Price Large Cap Enh Index	124,602,795	124,491,529	(111,266)	4.6	3.9
Goldman Large Cap Enh Index	125,956,387	124,463,571	(1,492,816)	4.7	3.9
INTECH Large Cap Enh Index	123,837,189	124,358,200	521,011	4.6	3.9
Energy	72,271,490	118,413,510	46,142,020	2.7	3.8
Consumer Discretionary	100,613,568	97,555,080	(3,058,488)	3.7	3.1
Consumer Staples	76,419,151	90,079,850	13,660,699	2.8	2.9
Telecommunication Services	30,168,816	31,558,710	1,389,894	1.1	1.0
SPIFF (1)	15,744,335	15,902,570	11,691,519	0.6	0.5
Materials	8,204,995	10,252,310	2,047,315	0.3	0.3
Total	2,700,870,570	3,152,703,754	463,366,469	100.0	100.0

(1) Stock Performance Index Futures Fund - Includes Money Market & Cash

Montana Common Stock Pool Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2006	6.05	S & P 500	8.63	(2.58)
3 Year Annualized Average	8.80	S & P 500	11.22	(2.42)
5 Year Annualized Average	0.84	S & P 500	2.49	(1.65)
10 Year Annualized Average	6.79	S & P 500	8.32	(1.53)

The returns shown above are returns on the large cap active stock portfolio managed internally by Board staff.



MONTANA INTERNATIONAL STOCK POOL (MTIP)

The Montana International Equity Pool (MTIP) was created in 1997 when the nine pension funds purchased pool shares to fund investments in international stock. Cash dividends, interest and related income currency gains/losses are distributed monthly.

The upper graph depicts the net asset value of the pool at June 30. The lower graph shows the fair value of the securities held by the pool by region.

Any difference between the net asset value of the pool and the fair value of investments held is due to receivables/payables and/or cash included in the Net Asset Value.

The MTIP distributed $11.1 million of income to participants in 2006, compared to $8.5 million in 2005. The MTIP financial statement, which lists the individual securities in the portfolio, is shown on Page B–47 in Appendix B.

The tables on the following pages show:

- The investment managers and the fair value of their securities portfolios,
- The changes in securities fair value by country,
- The book and fair values of securities portfolios by country, and
- The total rates of return by actively-managed securities portfolio.

Manager	Fair Value $
Barclay MSCI Europe Passively-Managed Equity Index	768,768,601
SSB EAFE Index	30,495,834
Schroder Actively-Managed Pacific Basin	135,660,842
Nomura Actively Managed Pacific Basin	144,954,585
Barclay MSCI Passively-Managed Equity Index Pacific Basin	65,943,278
Stock Performance Index Futures Fund\StateStreet Cash	95,225,201
Total International Portfolios	1,241,048,340

MTIP Annual Change At June 30

Country	2006 $ Fair Value	% of Total	2005 $ Fair Value	% of Total	$ Change	% Change
MSCI Europe Equity Index	768,768,601	61.9	466,246,670	46.9	302,521,931	64.9
Japan	165,848,053	13.4	143,770,620	14.5	22,077,433	15.4
DFA International Index	93,071,030	7.5	76,554,040	7.7	16,516,990	21.6
MSCI Pacific Basin Equity Index	65,943,278	5.3	50,628,249	5.1	15,315,028	30.2
Australia	34,573,892	2.8	33,527,931	3.4	1,045,961	3.1
EAFE Stock Performance Index	30,495,834	2.5	0	0.0	30,495,834	N/A
Korea	23,296,305	1.9	15,967,519	1.6	7,328,786	45.9
Hong Kong	22,914,329	1.8	16,060,009	1.6	6,854,321	42.7
Taiwan	15,453,944	1.2	17,213,176	1.7	(1,759,232)	(10.2)
Singapore	7,921,597	0.6	7,043,624	0.7	877,973	12.5
Thailand	4,572,035	0.4	2,875,184	0.3	1,696,851	59.0
Malaysia	3,208,048	0.3	3,932,518	0.4	(724,470)	(18.4)
US $ Cash	2,154,170	0.2	5,660,782	0.6	(3,506,612)	(61.9)
Philippines	1,527,074	0.1	2,002,694	0.2	(475,621)	(23.7)
Indonesia	888,913	0.1	998,207	0.1	(109,294)	(10.9)
New Zealand	411,237	0.0	786,540	0.1	(375,302)	(47.7)
United Kingdom	0	0.0	44,352,481	4.5	(44,352,481)	(100.0)
Switzerland	0	0.0	33,623,190	3.4	(33,623,190)	(100.0)
Spain	0	0.0	22,423,151	2.3	(22,423,151)	(100.0)
France	0	0.0	18,148,832	1.8	(18,148,832)	(100.0)
Netherlands	0	0.0	17,000,959	1.7	(17,000,959)	(100.0)
Ireland	0	0.0	8,037,194	0.8	(8,037,194)	(100.0)
Germany	0	0.0	3,242,393	0.3	(3,242,393)	(100.0)
SPIFF (1)	0	0.0	2,111,305	0.2	(2,111,305)	(100.0)
Portugal	0	0.0	1,311,352	0.1	(1,311,352)	(100.0)
Total	1,241,048,340	100.0	$993,518,620	100.0	$247,529,720	24.9

(1) Stock Performance Index Futures Fund

MTIP Book/Fair Values At June 30, 2006

Country	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
MSCI Europe Equity Index	546,725,220	768,768,601	222,043,381	59.9	61.9
Japan	128,263,438	165,848,053	37,584,615	14.0	13.4
DFA International Index	78,148,695	93,071,030	14,922,335	8.6	7.5
MSCI Pacific Basin Equity Index	40,005,322	65,943,278	25,937,955	4.4	5.3
Australia	24,368,460	34,573,892	10,205,432	2.7	2.8
EAFE Stock Performance Index	28,001,021	30,495,834	2,494,813	3.1	2.5
Korea	16,428,525	23,296,305	6,867,780	1.8	1.9
Hong Kong	18,540,963	22,914,329	4,373,366	2.0	1.8
Taiwan	14,061,960	15,453,944	1,391,983	1.5	1.2
Singapore	6,785,635	7,921,597	1,135,962	0.7	0.6
Thailand	4,122,367	4,572,035	449,668	0.5	0.4
Malaysia	2,986,066	3,208,048	221,982	0.3	0.3
US $ Cash	2,154,170	2,154,170	0	0.2	0.2
Philippines	981,135	1,527,074	545,939	0.1	0.1
Indonesia	823,321	888,913	65,592	0.1	0.1
New Zealand	676,552	411,237	(265,315)	0.1	0.0
Total	913,072,852	1,241,048,340	327,975,488	100.0	100.0

(1) Stock Performance Index Futures Fund

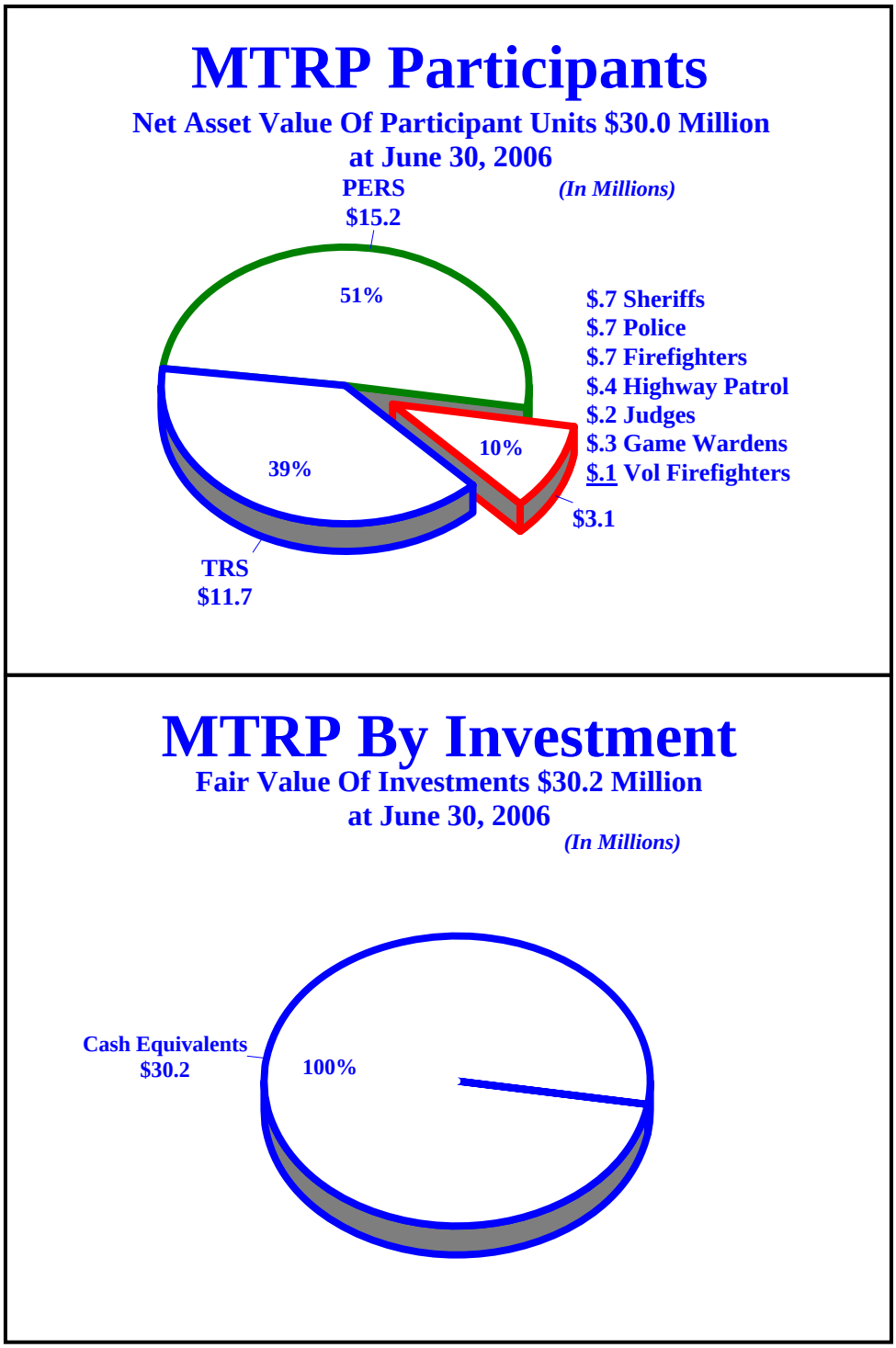
MTIP 2006 Total Rates of Returns By Active Manager Versus Benchmarks

Manager	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Schroder Capital Management	25.80	Montana Custom Pacific	30.10	(4.30)
Nomura Asset Management	32.56	Montana Custom Pacific	30.10	2.46
All International (1)	26.06	MSCI EAFE	26.56	(0.50)

(1) Includes Passive Management

MTIP Annual Average Total Rates of Returns From Inception

Year	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
2006	26.06	MSCI EAFE	26.56	(0.50)
3 Year Annualized Average	24.24	MSCI EAFE	23.94	0.30
5 Year Annualized Average	11.00	MSCI EAFE	10.02	0.98



MONTANA REAL ESTATE POOL (MTRP)

The Montana Real Estate Pool (MTRP) was created April 26, 2006 to permit the nine pension funds to participate in a diversified real estate portfolio.

The upper graph depicts the net asset value of the pool at June 30. The lower graph shows the fair value of the securities held by the pool.

The Board has approved an allocation of up to 8.0 percent of pension funds to real estate. This pool will grow rather rapidly as newly hired managers begin to draw down capital.

The MTRP distributed $124.6 thousand of income to participants in 2006.

The MTRP financial statement, which lists the individual securities in the portfolio, is shown on Page B – 60 in Appendix B.

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and

MTRP Annual Change At June 30

Investment Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% Change
Short Term Investment Pool	30,159,689	100.0	0	0.0	30,159,689	N/A
TotalCash Equivalents	30,159,689	100.0	0	0.0	30,159,689	N/A
Total Investments	30,159,689	100.0	0	0.0	30,159,689	N/A

MTRP Book/Fair Values At June 30, 2006

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Short Term Investment Pool	30,159,689	30,159,689	0	100.0	100.0
TotalCash Equivalents	30,159,689	30,159,689	0	100.0	100.0
Total Investments	30,159,689	30,159,689	0	100.0	100.0

MONTANA PRIVATE EQUITY POOL (MPEP) The Montana Private Equity Pool was created on May 1, 2002 when all private equity investments held by the nine pension funds were transferred to the pool. Each pension fund received shares in the pool equal to the fair value of their private equity investments and also transferred cash to the pool to provide liquidity for investments. Any difference between the net asset value of the pool and the fair value of investments held is due to receivables/payables and/or cash included in the Net Asset Value. The MPEP financial statement, which lists the portfolio, is shown on Page B-64 in Appendix B.

MPEP Participant Change At June 30

Fund	2006 $ NAV	% of Total	2005 $ NAV	% of Total	$ Change	% Change
Public Employees	203,406,134	50.8	150,594,502	50.6	52,811,632	35.1
Teachers	154,896,789	38.7	116,621,027	39.2	38,275,761	32.8
Police	10,088,571	2.5	7,137,953	2.4	2,950,618	41.3
Sheriffs	9,507,757	2.4	6,940,554	2.3	2,567,204	37.0
Firefighters	9,587,346	2.4	6,797,319	2.3	2,790,027	41.0
Highway Patrol	5,178,135	1.3	3,946,191	1.3	1,231,943	31.2
Judges	3,047,260	0.8	2,228,865	0.7	818,395	36.7
Game Wardens	3,329,864	0.8	2,170,182	0.7	1,159,682	53.4
Vol. Firefighters	1,340,772	0.3	991,926	0.3	348,846	35.2
Total Investments	400,382,627	100.0	297,428,519	100.0	102,954,108	34.6

MPEP Change At June 30 by Manager

Manager/Investment Type	2006 $ Fair Value	% of Total	2005 $ Fair Value	% of Total	$ Change	% Change
Adams Street Partners	164,041,485	40.9	113,401,916	38.1	50,639,569	44.7
Kolberg Kravis & Roberts (KKR)	52,197,825	13.0	62,188,362	20.9	(9,990,538)	(16.1)
Welsh Carson Anderson&Stowe	39,188,404	9.8	19,634,646	6.6	19,553,758	99.6
Lexington Capital	35,366,353	8.8	32,388,833	10.9	2,977,520	9.2
SPIFF (1)	31,043,496	7.7	32,627,325	11.0	(1,583,828)	(4.9)
Madison Dearborn Capital	23,791,515	5.9	11,569,961	3.9	12,221,553	105.6
Arclight Capital	15,895,311	4.0	4,712,780	1.6	11,182,531	237.3
Carlyle Partners	14,395,986	3.6	7,000	0.0	14,388,986	N/A
Odyssey Partners	8,205,659	2.0	4,127,031	1.4	4,078,628	98.8
Oak Hill Capital	7,772,288	1.9	16,896,984	5.7	(9,124,696)	(54.0)
Oaktree Capital	5,907,856	1.5	0	0.0	5,907,856	N/A
JLL Partners	2,921,123	0.7	0	0.0	2,921,123	N/A
Intermountain	0	0.0	83,333	0.0	(83,333)	(100.0)
Total Investments	400,727,301	100.0	297,638,172	100.0	103,089,129	34.6

(1) Stock Performance Index Futures Fund

MPEP Book/Fair Values At June 30, 2006 by Manager

Manager/Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Adams Street Partners	155,629,574	164,041,485	8,411,911	44.1	40.9
Kolberg Kravis & Roberts (KKR)	54,803,063	52,197,825	(2,605,238)	15.5	13.0
Welsh Carson Anderson&Stowe	30,376,707	39,188,404	8,811,698	8.6	9.8
Lexington Capital	16,566,541	35,366,353	18,799,812	4.7	8.8
SPIFF (1)	31,232,912	31,043,496	(189,416)	8.8	7.7
Madison Dearborn Capital	15,965,591	23,791,515	7,825,923	4.5	5.9
Arclight Capital	15,537,308	15,895,311	358,003	4.4	4.0
Carlyle Partners	14,315,672	14,395,986	80,314	4.1	3.6
Odyssey Partners	8,414,360	8,205,659	(208,701)	2.4	2.0
Oak Hill Capital	7,264,177	7,772,288	508,111	2.1	1.9
Oaktree Capital	1	5,907,856	5,907,855	0.0	1.5
JLL Partners	3,052,490	2,921,123	(131,367)	0.9	0.7
Total Investments	353,158,397	400,727,301	47,568,904	100.0	100.0

(1) Stock Performance Index Futures Fund

MPEP Total Rates of Returns Versus Benchmark

Year	% Return	Benchmark	Benchmark % Return	Return +/- Benchmark
2006	18.35	S&P 1500 + 4.0%	13.22	5.13
3 Year Annualized Average	21.68	S&P 1500 + 4.0%	16.13	5.55

Private equity investments are participations in non-publicly traded equity ownership of a fund or operating company either directly or more commonly through a partnership. As of June 30, 2006, 11 private equity managers invested the pool's assets.

Adams Street Partners – A fund-of-fund investment manager, formerly, Brinson Partners offers a wide range of private equity capital investment alternatives.

Arclight Capital Partners – Established in 2001, the firm is one of the leading private investment firms focused exclusively on the electric power industry.

JLL Partners – Founded in 1988, JLL is among the leading private equity investment firms in the country, managing a series of private equity funds aggregating approximately $4 billion in committed capital. JLL Partners seeks to make control equity investments in middle market companies by extricating good companies from complicated situations or building strong companies in partnership with exceptional managers.

Kolberg, Kravis & Roberts - A global leveraged-buyout firm organized in 1975 that seeks investment opportunities in a wide-range of industries.

Lexington Partners – A private equity firm, founded in 1994, specializing in secondary investments that provide liquidity to owners of domestic and international private equity limited partnerships. The firm also co-investments with other private equity sponsors and invests in newly-formed private equity partnerships.

Madison-Dearborn Partners - A private equity investment firm, founded in 1992, that seeks growth equity transactions and management buyout opportunities in a wide range of industries.

Oak Hill Capital Partners – A leading private equity firm with a unique family-office heritage. Oak Hill is one of several separate and independently-managed strategic partnerships that comprise more than $20 billion of investment capital across multiple asset classes.

Oaktree Capital Management – A firm investing in distressed debt, high yield, and convertible securities markets. The Board invested $75.0 million with the firm in September 2002.

Odyssey Investment Partners – A leading private equity investment firm organized in 1998 that makes majority, control investments primarily in established middle-market companies in a variety of industries.

The Carlyle Group – A global private investment firm, established in 1987, that originates, structures and acts as lead equity investor in management-led buyouts, strategic minority equity investments, equity private placements, consolidations and buildups, and growth capital financings.

Welsh Carson Anderson Stowe - A leveraged-buyout firm founded in 1979 focused on information services, communications and healthcare industries.

The types of investments made by private equity managers generally fall into the following categories:

Private Equity – Private equity investments in funds or operating companies in an asset class other than cash, stocks, or fixed income securities and real estate.

Venture Capital – Equity or equity-like investments in companies that have undeveloped or developing products or revenue.

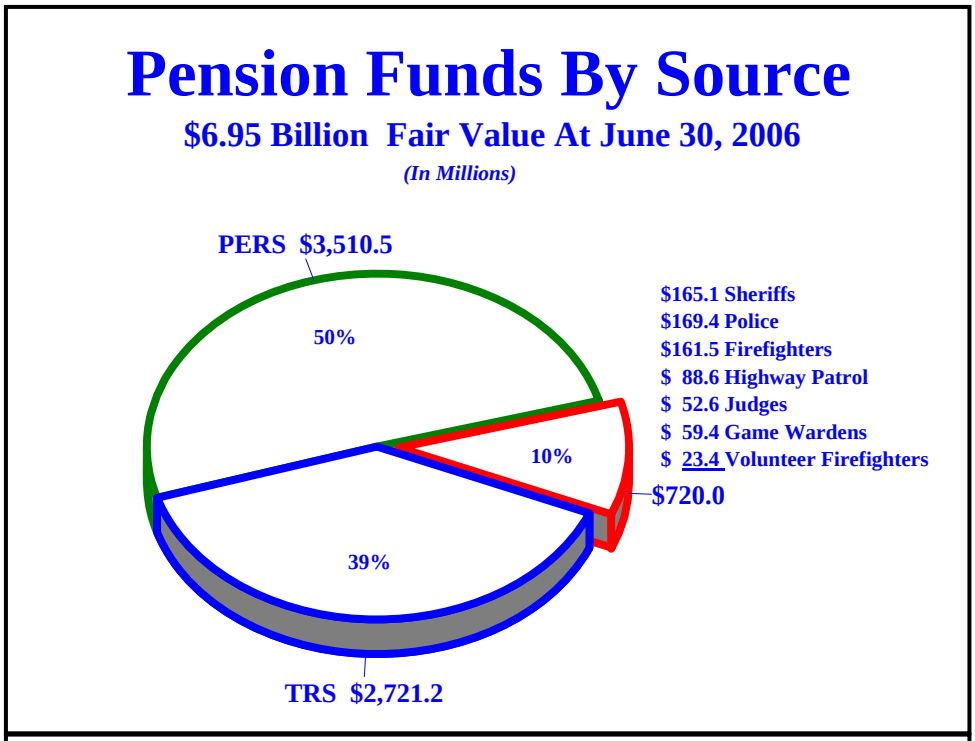
Leveraged Buy-Outs – Equity investments in public or private companies that purchase a significant portion or majority control of the company.

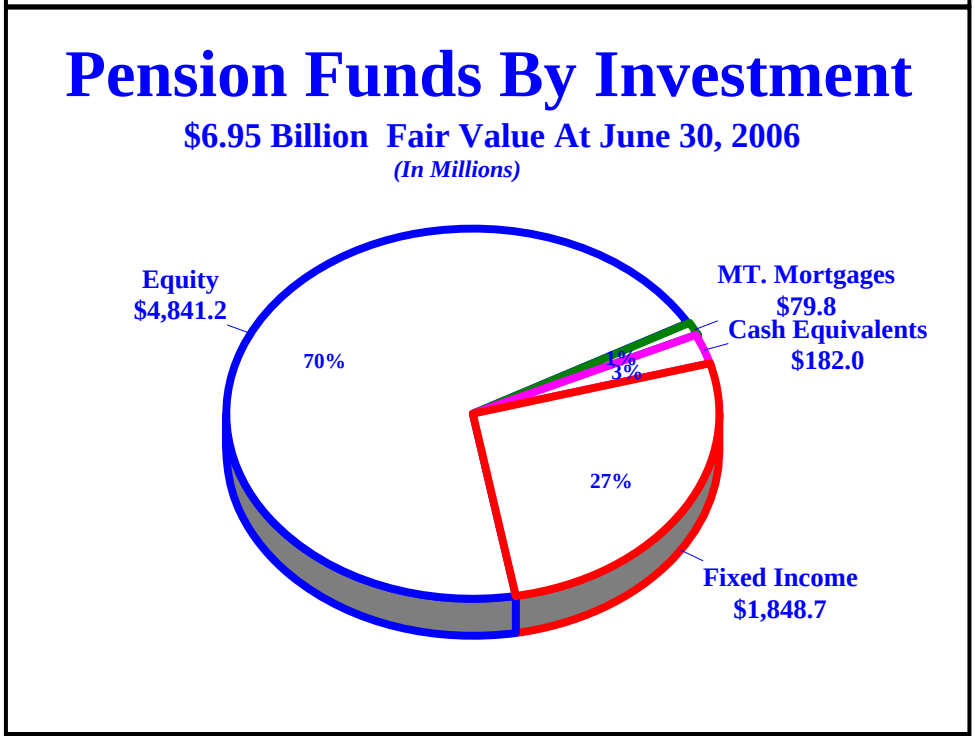
Mezzanine – Investments in the subordinated debt and/or equity of privately owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options.

Special Situations – Includes: 1) investments in the exploration for oil and/or gas reserves or in the development of proven reserves; 2) investments in land to harvest timber; and 3) investments that have a special component usually related to geographical, economic, or social issues sometimes referred to as Economically Targeted Investments.

Secondary Investments – Investments in a previously-owned limited partnership or investment in previously owned limited partnership via a secondary fund.

Distressed Debt – Public and private debt of companies that appear unlikely to meet their financial obligations but are attractive to investors, not for repayment of interest and principal which are unlikely to be paid, but for the claim placed on the firm's value by unpaid creditors.





PENSION FUNDS

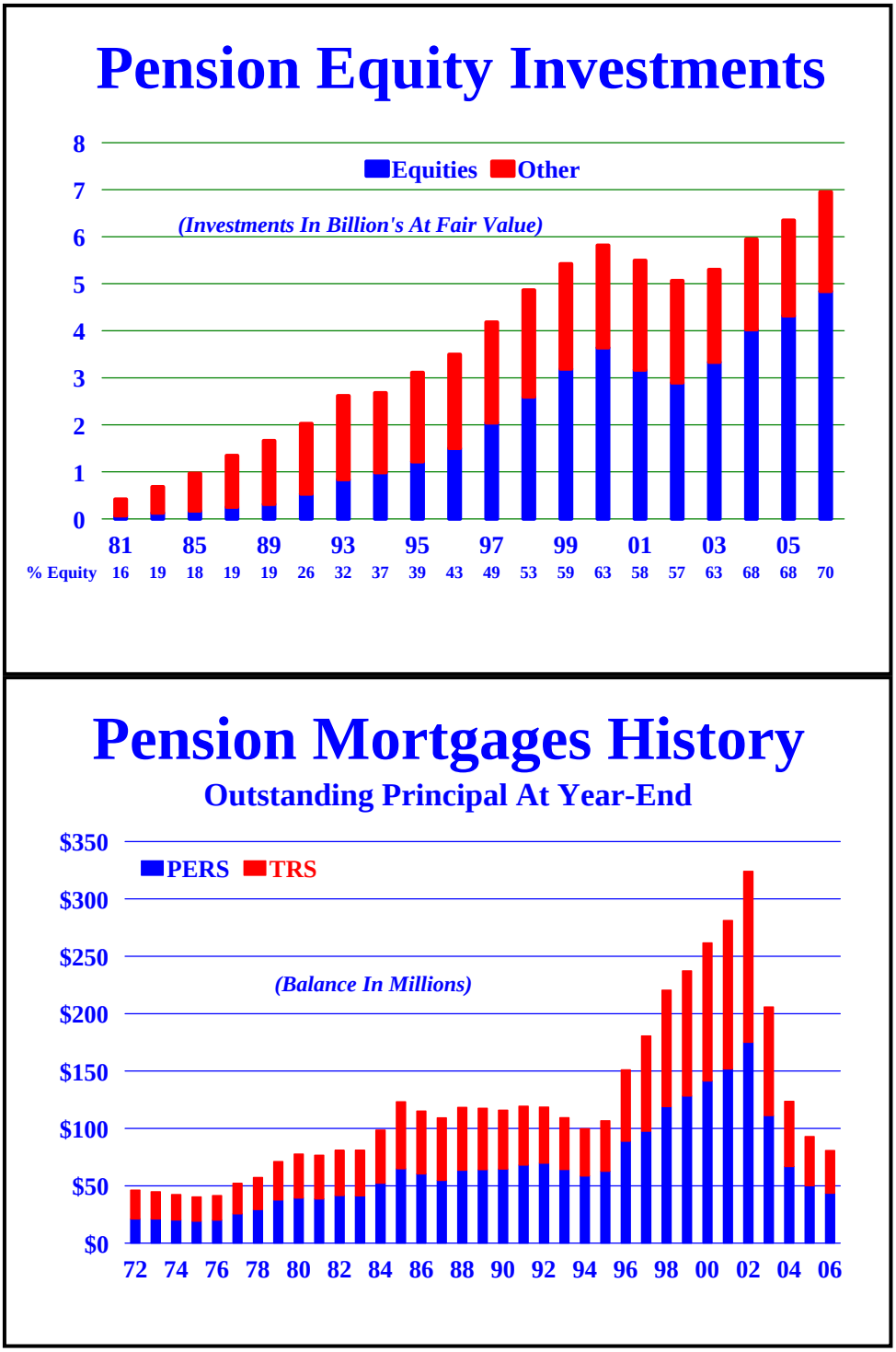
By law, all public pension funds in the state, including local governments and school districts, are managed by the state. The Board of Investments manages all pension fund investments. Pension fund operations are administered by two boards appointed by the Governor.

The Teachers' Retirement Board manages the Teachers' Retirement System (TRS), while the Public Employees' Retirement Board manages the other eight systems.

The upper graph depicts the state's nine pension fund investment portfolios at fair value as of June 30. The lower graph depicts total pension fund investments by major investment type.

As of June 30 approximately 99 percent of pension fund investments at fair value were managed in various investment pools created by the Board. These pools, which operate similar to mutual funds, simplify investing and accounting, and provide broader diversification for the smaller funds. Income is distributed monthly to pool participants.

The pension funds earned $198.8 million on their investments in 2006, compared to $187.4 million in 2005. The total rate of return of each fund is shown on the following pages.



The Board has increased pension investments in equities in recent years to increase the total rate of return. The current target is up to 70 percent of the fair value of pension investments.

Declining equity prices reduced fair value of total pension fund investments from 2001 through 2003. Pension fund assets of $5.95 billion in 2004 finally surpassed the 2000 value at the peak of the stock market bubble.

During 2001 through 2003 the Board actively sold fixed-income investments and invested the sale proceeds in the equity markets.

This rebalancing and a resurgent of domestic and international stock markets brought pension fund equity allocation to 68 percent of total pension fund investments in 2004.

From 1994 to 2002, the Board significantly increased pension investments in Montana residential mortgages. Mortgage investments peaked at $324.0 million in 2002. From 2003 through 2005, mortgage rates on the secondary market declined to less than 6 percent and the Board declined to purchase mortgages for the pension funds at these rates. This policy, combined with significant mortgage re-financings caused a significant drop in the pension mortgage portfolio to $80.8 million at year-end 2006.

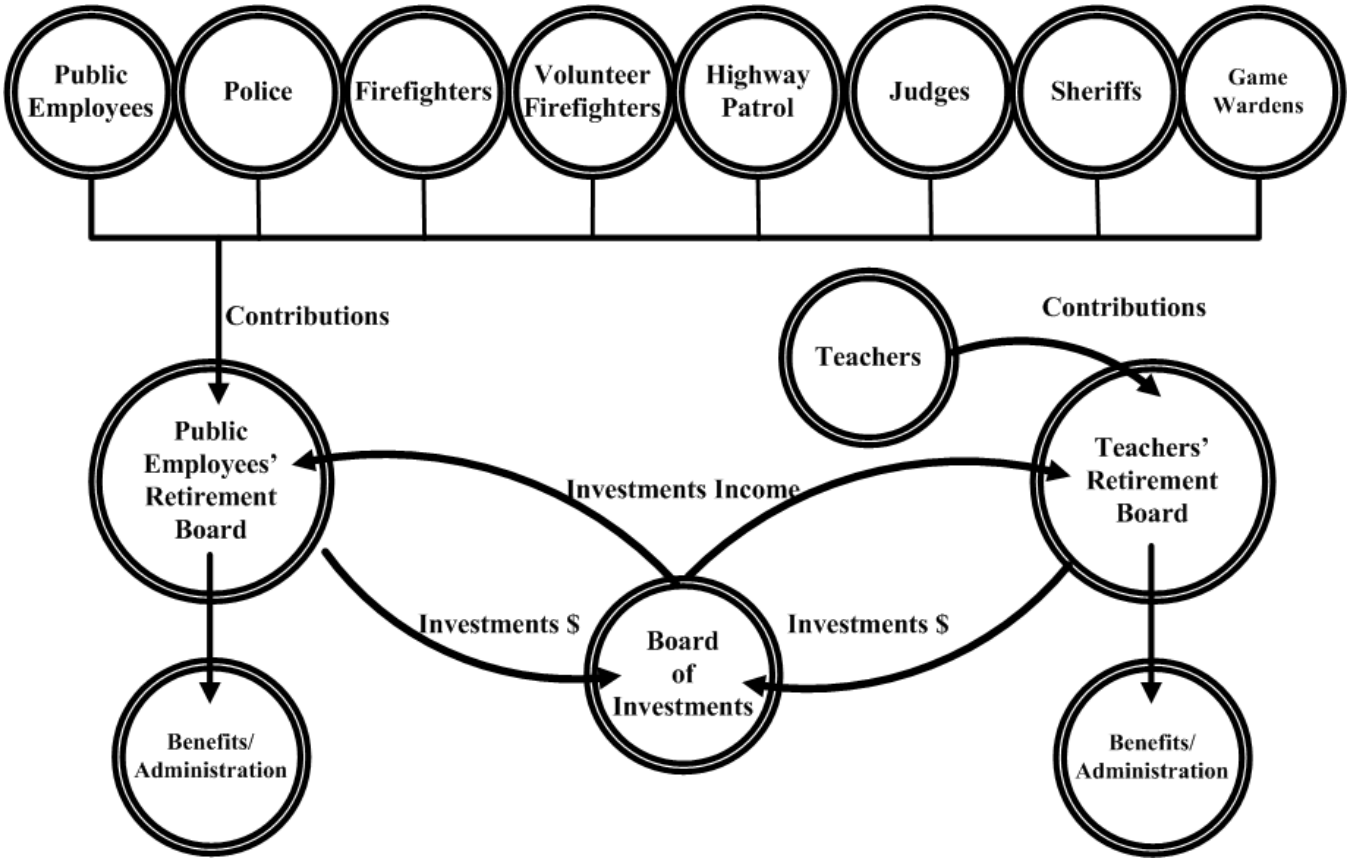
Pension Funds Annual Book Value Change At June 30

Fund	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% of Change
Public Employees	2,432,047,337	50.4	2,339,869,014	50.8	92,178,323	3.9
Teachers	1,869,992,739	38.7	1,763,665,585	38.3	106,327,154	6.0
Police	124,093,432	2.6	118,153,666	2.6	5,939,765	5.0
Sheriffs	120,113,705	2.5	115,023,467	2.5	5,090,238	4.4
Firefighters	119,141,429	2.5	113,713,015	2.5	5,428,413	4.8
Highway Patrol	62,274,983	1.3	61,546,174	1.3	728,809	1.2
Game Wardens	44,610,029	0.9	40,208,227	0.9	4,401,802	10.9
Judges	37,099,081	0.8	35,753,937	0.8	1,345,144	3.8
Volunteer Firefighters	18,555,017	0.4	16,448,235	0.4	2,106,781	12.8
Total	4,827,927,751	100.0	4,604,381,321	100.0	223,546,430	4.9
Investment Type						
Fixed Income (RFBP)	1,884,443,348	39.0	1,771,243,348	38.5	113,200,000	6.4
Equities	2,680,748,417	55.5	2,639,072,488	57.3	41,675,929	1.6
Cash Equivalents (STIP)	181,985,481	3.8	101,126,032	2.2	80,859,449	80.0
Montana Mortgages	80,750,505	1.7	92,939,453	2.0	(12,188,948)	(13.1)
Total	4,827,927,751	100.0	4,604,381,321	100.0	223,546,430	4.9

Pension Funds Annual Fair Value Change At June 30

Fund	2006 $ Fair Value	% of Total	2005 $ Fair Value	% of Total	$ Change	% of Change
Public Employees	3,510,451,899	50.5	3,232,788,978	50.9	277,662,921	8.6
Teachers	2,721,219,510	39.1	2,461,155,345	38.8	260,064,165	10.6
Police	169,416,551	2.4	153,724,535	2.4	15,692,017	10.2
Sheriffs	165,117,982	2.4	151,006,508	2.4	14,111,473	9.3
Firefighters	161,465,456	2.3	146,685,522	2.3	14,779,934	10.1
Highway Patrol	88,607,707	1.3	83,578,823	1.3	5,028,884	6.0
Game Wardens	59,396,228	0.9	51,750,698	0.8	7,645,531	14.8
Judges	52,585,905	0.8	48,424,100	0.8	4,161,806	8.6
Volunteer Firefighters	23,433,584	0.3	20,063,456	0.3	3,370,128	16.8
Total	6,951,694,822	100.0	6,349,177,964	100.0	602,516,858	9.5
Investment Type						
Fixed Income (RFBP)	1,848,687,001	26.6	1,834,620,222	28.9	14,066,779	0.8
Equities	4,841,213,439	69.6	4,319,620,513	68.0	521,592,926	12.1
Cash Equivalents (STIP)	181,985,481	2.6	101,126,032	1.6	80,859,449	80.0
Montana Mortgages	79,808,901	1.1	93,811,197	1.5	(14,002,296)	(14.9)
Total	6,951,694,822	100.0	6,349,177,964	100.0	602,516,858	9.5

The chart on the next page depicts the relationship of the two state Pension Boards to the Board of Investments in managing the state's nine pension fund assets and liabilities.



As depicted in the above chart the employee/employer contributions are collected by the two Pension Boards that administer the benefits. The actual employee/employer contribution levels and the formulas for benefits are set by law. The Pension Boards hire actuarial firms to value the nine systems and provide the assumptions used by the actuary in the valuations. The actuary determines the "soundness" of the systems based on the assumptions. Article VIII, Section 15 of the Montana State Constitution requires that the systems be "actuarially sound" as follows:

> *(1) Public retirement systems shall be funded on an actuarially sound basis. Public retirement system assets, including income and actuarially required contributions, shall not be encumbered, diverted, reduced, or terminated and shall be held in trust to provide benefits to participants and their beneficiaries and to defray administrative expenses.*
>
> *(2) The governing boards of public retirement systems shall administer the system, including actuarial determinations, as fiduciaries of system participants and their beneficiaries.*

State law defines a system as actuarially sound when its unfunded liability, if any, can be amortized in 30 years or less with the current level of contributions. As of June 30, 2006, four of the state's nine pension funds were not actuarially sound as determined by the system's actuaries. These systems were:

- The Public Employees' Retirement System
- The Teachers' Retirement System
- The Sheriffs' Retirement System
- The Game Wardens' and Peace Officers Retirement System

The tables on the following pages show information on the nine systems.

Membership

PERS	6/30/2006	6/30/2005
Retirees & Beneficiaries	15,654	15,220
Vested Terminated	2,530	2,418
Non-vested Terminated	7,178	8,153
Active Members	27,962	28,213
Total	**53,324**	**54,004**

Sheriffs	6/30/2006	6/30/2005
Retirees & Beneficiaries	361	340
Vested Terminated	39	42
Non-vested Terminated	102	81
Active Members	1,006	680
Total	**1,508**	**1,143**

Firefighters	6/30/2006	6/30/2005
Retirees & Beneficiaries	509	504
Vested Terminated	10	13
Non-vested Terminated	64	50
Active Members	467	444
Total	**1,050**	**1,011**

Highway Patrol	6/30/2006	6/30/2005
Retirees & Beneficiaries	282	276
Vested Terminated	13	10
Non-vested Terminated	11	9
Active Members	197	201
Total	**503**	**496**

Game Wardens	6/30/2006	6/30/2005
Retirees & Beneficiaries	106	94
Vested Terminated	30	22
Non-vested Terminated	81	81
Active Members	793	711
Total	**1,010**	**908**

Volunteer Firefighters	6/30/2006	6/30/2005
Retirees & Beneficiaries	1,001	966
Vested Terminated	687	687
Active Members	2,733	2,754
Total	**4,421**	**4,407**

Judges	6/30/2006	6/30/2005
Retirees & Beneficiaries	51	49
Vested Terminated	3	4
Non-vested Terminated	-	-
Active Members	50	50
Total	**104**	**103**

Teachers	6/30/2006	6/30/2005
Retirees & Beneficiaries	11,019	10,664
Vested Terminated	1,684	1,649
Non-vested Terminated	8,542	8,569
Active Members	18,099	18,239
Total	**39,344**	**39,121**

Police	6/30/2006	6/30/2005
Retirees & Beneficiaries	580	575
Vested Terminated	29	26
Non-vested Terminated	40	35
Active Members	617	605
Total	**1,266**	**1,241**

Total	6/30/2006	6/30/2005
Retirees & Beneficiaries	29,563	28,688
Vested Terminated	5,025	4,871
Non-vested Terminated	16,018	16,978
Active Members	51,924	51,897
System Total	**102,530**	**102,434**

Assets and Liabilities
(In Thousands $)

PERS	6/30/2006	6/30/2005
Actuarial Liability	3,919,313	3,719,998
Actuarial Assets (1)	3,459,084	3,179,010
Unfunded Actuarial Liability	**460,229**	**540,988**
Funded Ratio	**88.26%**	**85.46%**

Sheriffs	6/30/2006	6/30/2005
Actuarial Liability	171,841	159,347
Actuarial Assets	163,003	148,458
Unfunded Actuarial Liability	**8,838**	**10,889**
Funded Ratio	**94.86%**	**93.17%**

Firefighters	6/30/2006	6/30/2005
Actuarial Liability	255,513	238,157
Actuarial Assets	167,343	151,393
Unfunded Actuarial Liability	**88,170**	**86,764**
Funded Ratio	**65.49%**	**63.57%**

Highway Patrol	6/30/2006	6/30/2005
Actuarial Liability	112,002	112,938
Actuarial Assets	87,189	82,050
Unfunded Actuarial Liability	**24,813**	**30,888**
Funded Ratio	**77.85%**	**72.65%**

Game Wardens	6/30/2006	6/30/2005
Actuarial Liability	64,183	56,414
Actuarial Assets	58,813	50,961
Unfunded Actuarial Liability	**5,370**	**5,453**
Funded Ratio	**91.63%**	**90.33%**

Volunteer Firefighters	6/30/2006	6/30/2005
Actuarial Liability	31,883	30,773
Actuarial Assets	23,238	21,311
Unfunded Actuarial Liability	**8,645**	**9,462**
Funded Ratio	**72.89%**	**69.25%**

Judges	6/30/2006	6/30/2005
Actuarial Liability	37,159	34,525
Actuarial Assets	51,808	47,552
Unfunded Actuarial Liability	**(14,649)**	**(13,027)**
Funded Ratio	**139.42%**	**137.73%**

Teachers	6/30/2006	6/30/2005
Actuarial Liability	3,733,600	3,527,000
Actuarial Assets (1)	2,745,800	2,497,500
Unfunded Actuarial Liability	**987,800**	**1,029,500**
Less University Contributions	124,700	126,200
Unfunded Actuarial Liability	**863,100**	**903,300**

Police	6/30/2006	6/30/2005
Actuarial Liability	291,099	276,379
Actuarial Assets	175,919	159,417
Unfunded Actuarial Liability	**115,180**	**116,962**
Funded Ratio	**60.43%**	**57.68%**

Total	6/30/2006	6/30/2005
Actuarial Liability	8,616,593	8,155,531
Actuarial Assets (1)	6,932,197	6,337,652
Unfunded Actuarial Liability	**1,684,396**	**1,817,879**
Less University Contributions	124,700	126,200
Total Unfunded Liability	**1,559,696**	**1,691,679**

(1) The December 2005 Special Session appropriated $25.0 million to PERS and $100.0 million to TRS

Cash Flow

(In Thousands $)

PERS	2006	2005
Employees	66,145	66,986
Employers (1)	88,573	60,454
State	443	421
Contributions	**155,161**	**127,861**
Benefits/Administration	**(171,341)**	**(160,109)**
Cash Flow	**(16,180)**	**(32,248)**

Sheriffs	2006	2005
Employees	3,683	2,988
Employers	3,562	2,813
Contributions	**7,245**	**5,801**
Benefits/Administration	**(6,612)**	**(6,218)**
Cash Flow	**633**	**(417)**

Firefighters	2006	2005
Employees	2,471	2,330
Employers	3,329	2,959
State	7,533	6,719
Contributions	**13,333**	**12,008**
Benefits/Administration	**(11,143)**	**(10,540)**
Cash Flow	**2,190**	**1,468**

Highway Patrol	2006	2005
Employees	851	862
Employers	2,905	3,324
Fees	277	669
Contributions	**4,033**	**4,855**
Benefits/Administration	**(6,485)**	**(6,049)**
Cash Flow	**(2,452)**	**(1,194)**

Game Wardens	2006	2005
Employees	3,007	3,023
Employers	2,411	2,054
Contributions	**5,418**	**5,077**
Benefits/Administration	**(2,373)**	**(2,194)**
Cash Flow	**3,045**	**2,883**

Volunteer Firefighters	2006	2005
State	1,610	1,527
Contributions	**1,610**	**1,527**
Benefits/Administration	**(1,623)**	**(1,575)**
Cash Flow	**(13)**	**(48)**

Judges	2006	2005
Employees	333	412
Employers	1,229	1,162
Contributions	**1,562**	**1,574**
Benefits/Administration	**(1,755)**	**(1,633)**
Cash Flow	**(193)**	**(59)**

Teachers	2006	2005
Employees	53,293	52,900
Employers	58,269	57,150
State (1)	100,693	656
Total Contributions	**212,255**	**110,706**
Benefits/Administration	**(178,412)**	**(167,149)**
Cash Flow	**33,843**	**(56,442)**

Police	2006	2005
Employees	2,545	2,425
Employers	4,038	3,791
State	8,182	7,705
Contributions	**14,765**	**13,921**
Benefits/Administration	**(12,699)**	**(12,226)**
Cash Flow	**2,066**	**1,695**

Total	2006	2005
Members	132,328	131,926
Employers	164,316	133,707
State/Other	118,738	17,697
Contributions	**415,382**	**283,330**
Benefits/Administration	**(392,443)**	**(367,693)**
Cash Flow	**22,939**	**(84,362)**

(1) The December 2005 Special Session appropriated $25.0 million to PERS and $100.0 million to TRS

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

PERS Annual Book Value Change At June 30

Investment Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	950,295,210	39.1	898,495,210	38.4	51,800,000	5.8
Domestic Stock Pool	769,762,722	31.7	795,839,836	34.0	(26,077,114)	(3.3)
International Stock Pool	406,553,000	16.7	406,553,000	17.4	0	0.0
Montana Private Equity Pool	146,952,838	6.0	122,267,864	5.2	24,684,974	20.2
Real Estate Pool	15,200,000	0.6	0	0.0	15,200,000	N/A
Direct Real Estate	8,495,959	0.3	8,413,771	0.4	82,189	1.0
Total Equity	1,346,964,519	55.4	1,333,074,470	57.0	13,890,049	1.0
Cash Equivalents (STIP)	91,182,336	3.7	50,187,304	2.1	40,995,031	81.7
Montana Mortgages	43,605,272	1.8	58,112,029	2.5	(14,506,757)	(25.0)
Total	2,432,047,337	100.0	2,339,869,014	100.0	92,178,323	3.9

PERS Annual Fair Value Change At June 30

Investment Type	2006 $ Fair Value	% of Total	2005 $ Fair Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	932,047,876	26.6	930,369,190	28.8	1,678,686	0.2
Domestic Stock Pool	1,586,747,062	45.2	1,529,417,961	47.3	57,329,102	3.7
International Stock Pool	630,135,329	18.0	505,111,709	15.6	125,023,620	24.8
Montana Private Equity Pool	203,406,134	5.8	150,594,643	4.7	52,811,491	35.1
Real Estate Pool	15,200,000	0.4	0	0.0	15,200,000	N/A
Direct Real Estate	8,636,356	0.2	8,525,400	0.3	110,956	1.3
Total Equity	2,444,124,881	69.6	2,193,649,712	67.9	250,475,169	11.4
Cash Equivalents (STIP)	91,182,336	2.6	50,658,046	1.6	40,524,289	80.0
Montana Mortgages	43,096,807	1.2	58,112,029	1.8	(15,015,223)	(25.8)
Total	3,510,451,899	100.0	3,232,788,978	100.0	277,662,921	8.6

PERS Book/Fair Values At June 30, 2006

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (RFBP)	950,295,210	932,047,876	(18,247,334)	39.1	26.6
Domestic Stock Pool	769,762,722	1,586,747,062	816,984,340	31.7	45.2
International Stock Pool	406,553,000	630,135,329	223,582,329	16.7	18.0
Montana Private Equity Pool	146,952,838	203,406,134	56,453,296	6.0	5.8
Real Estate Pool	15,200,000	15,200,000	0	0.6	0.4
Direct Real Estate	8,495,959	8,636,356	140,396	0.3	0.2
Total Equity	1,346,964,519	2,444,124,881	1,097,160,361	55.4	69.6
Montana Mortgages	43,605,272	43,096,807	(508,466)	1.8	1.2
Cash Equivalents (STIP)	91,182,336	91,182,336	0	3.7	2.6
Total	2,432,047,337	3,510,451,899	1,078,404,561	100.0	100.0

PERS Net Income By Source

Income Type	2006 $ Income	% Of Total	2005 $ Income	% Of Total	$ Change	% Change
Retirement Funds Bond Pool	53,342,167	47.1	60,109,224	61.4	(6,767,057)	(11.3)
Gain on Sale of Pool Units	28,486,152	25.2	4,389,425	4.5	24,096,727	549.0
Domestic Stock Pool	14,181,128	12.5	19,789,762	20.2	(5,608,633)	(28.3)
International Stock Pool	6,810,762	6.0	5,668,792	5.8	1,141,970	20.1
Short Term Investment Pool	3,409,413	3.0	1,612,559	1.6	1,796,854	111.4
Montana Private Equity Pool	3,266,451	2.9	1,997,076	2.0	1,269,375	63.6
Montana Mortgages	2,950,034	2.6	3,684,453	3.8	(734,419)	(19.9)
Equity Real Estate	643,527	0.6	664,008	0.7	(20,481)	(3.1)
Montana Real Estate Pool	63,220	0.1	0	0.0	63,220	N/A
All Other Funds	3,070	0.0	729	0.0	2,341	321.1
Total Gross Income	113,155,924	100.0	97,916,029	100.0	15,239,896	15.6
Board Management Fees	(1,104,439)		(1,029,823)		(74,616)	7.2
Custodial Bank Fees	(334,552)		(288,147)		(46,405)	16.1
External Manager Fees	(3,569,128)		(3,460,105)		(109,023)	3.2
Total Net Income	108,147,805		93,137,953		15,009,852	16.1

PERS 2006 Total Rates of Returns By Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	4.33	91-Day T Bill * 1.05	4.15	0.18
Domestic Stock Pool	8.13	S&P 1500 Index	9.22	(1.09)
International Stock Pool	25.94	MSCI EAFE	26.56	(0.62)
Private Equity Pool	17.44	S&P 1500 Index + 4%	13.22	4.22
Fixed Income (RFBP)	0.34	Lehman Brothers Aggregate	(0.81)	1.15
Montana Mortgages	4.27	NA	NA	NA
Equity Real Estate	7.05	NA	NA	NA
All Assets	9.07	Composite (1)	8.82	0.25

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

PERS Historical Rates of Returns Versus Benchmark

Year	% Return	Benchmark (1)	Benchmark % Return	Return +/- Benchmark
2006	9.07	PERS Composite	8.82	0.25
3 Year Annualized Average	10.19	PERS Composite	10.01	0.18
5 Year Annualized Average	5.76	PERS Composite	5.71	0.05
10 Year Annualized Average	7.82	PERS Composite	7.82	0.00

(1) An Index Composite Parallelling the Fund's Asset Allocation At Fair Value

PERS invested balances and income history are shown on Page A-15 in Appendix A

TEACHERS' RETIREMENT SYSTEM FUND (TRS)

TRS Annual Book Value Change At June 30

Investment Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	730,052,977	39.0	678,652,977	38.5	51,400,000	7.6
Domestic Stock Pool	591,501,945	31.6	600,682,625	34.1	(9,180,680)	(1.5)
International Stock Pool	311,631,000	16.7	311,631,000	17.7	0	0.0
Montana Private Equity Pool	111,203,231	5.9	94,424,972	5.4	16,778,259	17.8
Real Estate Pool	11,740,000	0.6	0	0.0	11,740,000	N/A
Direct Real Estate	7,981,391	0.4	7,902,459	0.4	78,932	1.0
Total Equity	1,034,057,567	55.3	1,014,641,056	57.5	19,416,511	1.9
Montana Mortgages	37,145,232	2.0	42,752,148	2.4	(5,606,916)	(13.1)
Cash Equivalents (STIP)	68,736,963	3.7	27,619,404	1.6	41,117,559	148.9
Total	1,869,992,739	100.0	1,763,665,585	100.0	106,327,154	6.0

TRS Annual Fair Value Change At June 30

Investment Type	2006 $ Fair Value	% of Total	2005 $ Fair Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	717,609,842	26.4	704,451,127	28.6	13,158,715	1.9
Domestic Stock Pool	1,238,892,456	45.5	1,172,930,246	47.7	65,962,209	5.6
International Stock Pool	484,574,635	17.8	388,431,359	15.8	96,143,276	24.8
Montana Private Equity Pool	154,896,789	5.7	116,621,027	4.7	38,275,761	32.8
Real Estate Pool	11,740,000	0.4	0	0.0	11,740,000	N/A
Direct Real Estate	8,056,730	0.3	7,949,031	0.3	107,699	1.4
Total Equity	1,898,160,610	69.8	1,685,931,663	68.5	212,228,947	12.6
Montana Mortgages	36,712,095	1.3	43,153,151	1.8	(6,441,056)	(14.9)
Cash Equivalents (STIP)	68,736,963	2.5	27,619,404	1.1	41,117,559	148.9
Total	2,721,219,510	100.0	2,461,155,345	100.0	260,064,165	10.6

TRS Book/Fair Values At June 30, 2006

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (RFBP)	730,052,977	717,609,842	(12,443,134)	39.0	26.4
Domestic Stock Pool	591,501,945	1,238,892,456	647,390,511	31.6	45.5
International Stock Pool	311,631,000	484,574,635	172,943,635	16.7	17.8
Montana Private Equity Pool	111,203,231	154,896,789	43,693,557	5.9	5.7
Real Estate Pool	11,740,000	11,740,000	0	0.6	0.4
Direct Real Estate	7,981,391	8,056,730	75,339	0.4	0.3
Total Equity	1,034,057,567	1,898,160,610	864,103,042	55.3	69.8
Montana Mortgages	37,145,232	36,712,095	(433,138)	2.0	1.3
Cash Equivalents (STIP)	68,736,963	68,736,963	0	3.7	2.5
Total	1,869,992,739	2,721,219,510	851,226,770	100.0	100.0

TRS Net Income By Source

Income Type	2006 $ Income	% Of Total	2005 $ Income	% Of Total	$ Change	% Change
Retirement Funds Bond Pool	40,611,147	54.2	45,690,274	57.4	(5,079,127)	(11.1)
Domestic Stock Pool	10,926,747	14.6	15,247,032	19.2	(4,320,285)	(28.3)
Gain on Sale of Pool Units	9,760,322	13.0	7,933,114	10.0	1,827,208	23.0
International Stock Pool	5,237,481	7.0	4,363,847	5.5	873,633	20.0
Short Term Investment Pool	2,701,497	3.6	1,003,700	1.3	1,697,796	169.2
Montana Mortgages	2,512,992	3.4	3,138,608	3.9	(625,616)	(19.9)
Montana Private Equity Pool	2,504,300	3.3	1,546,544	1.9	957,755	61.9
Equity Real Estate	604,110	0.8	622,740	0.8	(18,631)	(3.0)
Montana Real Estate Pool	48,829	0.1	0	0.0	48,829	N/A
All Other Funds	2,615	0.0	621	0.0	1,994	321.1
Total Gross Income	74,910,039	100.0	79,546,482	100.0	(4,636,443)	(5.8)
Board Management Fees	(859,151)		(804,871)		(54,279)	6.7
Custodial Bank Fees	(257,064)		(221,029)		(36,035)	16.3
External Manager Fees	(2,743,573)		(2,675,189)		(68,384)	2.6
Total Net Income	71,050,251		75,845,392		(4,795,141)	(6.3)

TRS 2006 Total Rates of Return by Asset

Asset Class	% Return	Market Index	Index % Return	Return +/- Index
Cash Equivalents (STIP)	4.33	91-Day T Bill * 1.05	4.15	0.18
Domestic Stock Pool	8.13	S & P 1500 Index	9.22	(1.09)
International Stock Pool	25.94	MSCI EAFE	26.56	(0.62)
Private Equity Pool	17.44	S&P 1500 Index + 4%	13.22	4.22
Fixed Income (RFBP)	0.34	Lehman Brothers Aggregate	(0.81)	1.15
Montana Mortgages	4.27	NA	NA	NA
Equity Real Estate	7.18	NA	NA	NA
All Assets	9.05	Composite (1)	8.81	0.24

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

TRS Historical Rates of Returns Versus Benchmark

Year	% Return	Benchmark (1)	Benchmark % Return	Return Benchmark
2006	9.05	TRS Composite	8.81	0.24
3 Year Annualized Average	10.23	TRS Composite	10.05	0.18
5 Year Annualized Average	5.76	TRS Composite	5.65	0.11
10 Year Annualized Average	7.84	TRS Composite	7.81	0.03

(1) An Index Composite Parallelling the Fund's Asset Allocation At Fair Value

TRS invested balances and income history are shown on Page A-16 in Appendix A.

OTHER RETIREMENT SYSTEMS

Assets of Individual Pensions at June 30

Systems	2006 $ Fair Value	2005 $ Fair Value	2006 $ Book Value	2005 $ Book Value	Fair % Change	Book % Change
Police	169,416,551	153,724,535	124,093,432	118,153,666	10.2	5.0
Sheriffs	165,117,982	151,006,508	120,113,705	115,023,467	9.3	4.4
Firefighters	161,465,456	146,685,522	119,141,429	113,713,015	10.1	4.8
Highway Patrol	88,607,707	83,578,823	62,274,983	61,546,174	6.0	1.2
Game Wardens	59,396,228	51,750,698	44,610,029	40,208,227	14.8	10.9
Judges	52,585,905	48,424,100	37,099,081	35,753,937	8.6	3.8
Vol. Firefighters	23,433,584	20,063,456	18,555,017	16,448,235	16.8	12.8
Total	720,023,414	655,233,641	525,887,674	500,846,721	9.9	5.0

Other Pensions Annual Change At June 30

Investment Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% of Change
Fixed Income (RFBP)	204,095,162	38.8	194,095,162	38.8	10,000,000	5.2
Domestic Stock Pool	182,694,186	34.7	183,996,419	36.7	(1,302,233)	(0.7)
International Stock Pool	83,797,893	15.9	83,308,042	16.6	489,850	0.6
Montana Private Equity Pool	30,139,252	5.7	24,052,500	4.8	6,086,752	25.3
Real Estate Pool	3,095,000	0.6	0	0.0	3,095,000	N/A
Total Equity	299,726,330	57.0	291,356,961	58.2	8,369,369	2.9
Cash Equivalents (STIP)	22,066,182	4.2	15,394,599	3.1	6,671,584	43.3
Total	525,887,674	100.0	500,846,721	100.0	25,040,953	5.0

Other Pensions Book/Fair Values At June 30, 2006

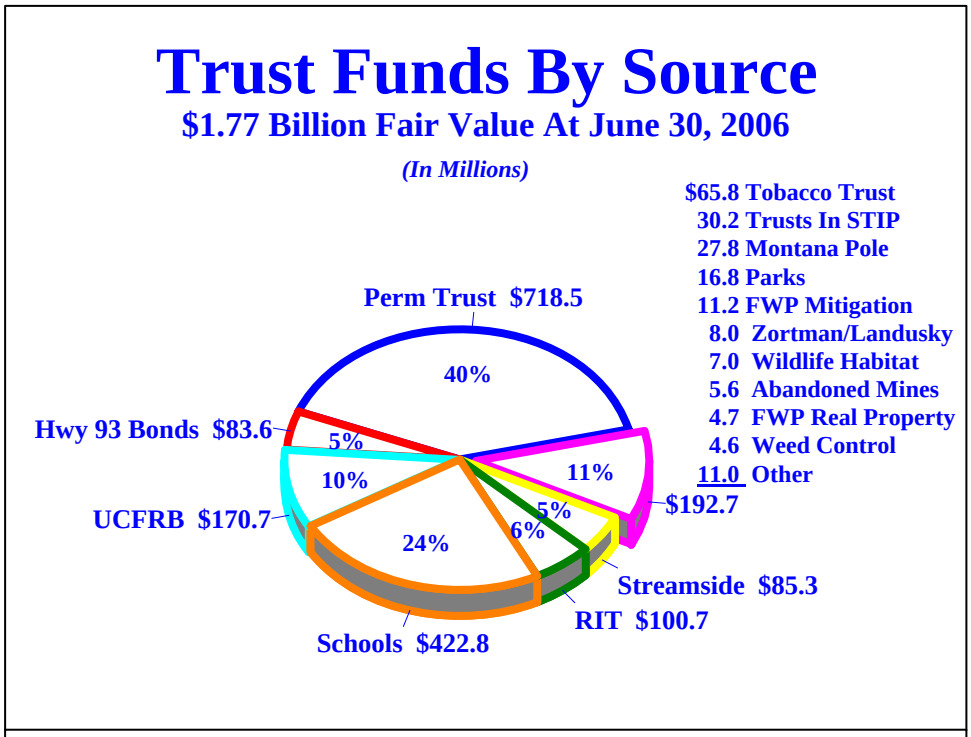
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (RFBP)	204,095,162	199,029,283	(5,065,879)	38.8	27.6
Domestic Stock Pool	182,694,186	325,013,117	142,318,932	34.7	45.1
International Stock Pool	83,797,893	128,740,127	44,942,234	15.9	17.9
Montana Private Equity Pool	30,139,252	42,079,705	11,940,453	5.7	5.8
Real Estate Pool	3,095,000	3,095,000	0	0.6	0.4
Total Equity	299,726,330	498,927,949	199,201,619	57.0	69.3
Cash Equivalents (STIP)	22,066,182	22,066,182	0	4.2	3.1
Total	525,887,674	720,023,414	194,135,740	100.0	100.0

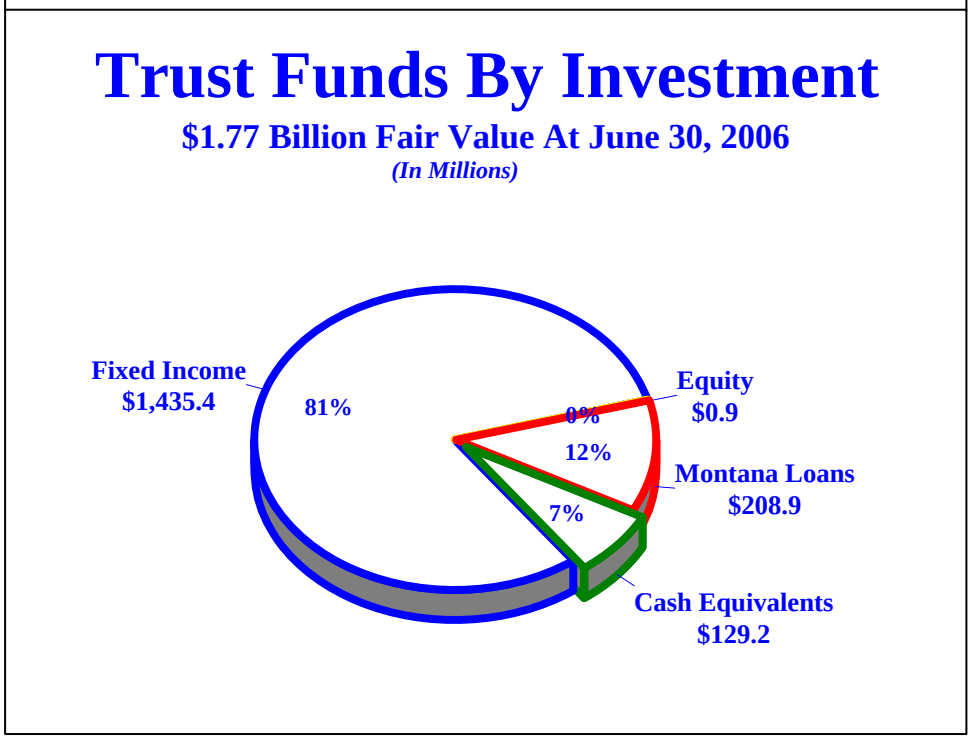
Other Retirement Systems 2006 Total Rates of Return

Fund	% Return	Index (1)	% Return	Fund +/-Index
Sheriffs	8.96	Composite	8.68	0.28
Police	8.95	Composite	8.68	0.27
Firefighters	8.94	Composite	8.68	0.26
Highway Patrol	8.99	Composite	8.72	0.27
Judges	8.96	Composite	8.69	0.27
Game Warden	8.67	Composite	8.39	0.28
Vol. Firefighters	8.80	Composite	8.53	0.27

(1) An Index Composite Paralleling the Fund's Asset Allocation at Fair Value

The seven other retirement funds are administered by the Public Employees' Retirement Board, the same Board that administers the Public Employees' Retirement System. These smaller systems participate with the Public Employees' Retirement Fund and the Teachers' Retirement Fund in all investment pools managed by the Board, but do not participate in the Montana Residential Mortgage Program or direct real estate investments.





TRUST FUNDS

The Board invests several trust funds, some of which are created and protected by the state constitution.

Other trusts have been created statutorily by the legislature or involve federal funds.

Several trust funds were established as a part of settlements between the state and private corporations to ensure environmental clean up of polluted sites.

The upper graph shows the various trust funds by type. The lower graph shows the trust fund investments by major asset class.

The table on the next page shows the change in the book value from 2005 to 2006 by individual trust fund.

Total Trust Funds Annual Change At June 30

Trust	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% Change
Permanent Coal Tax Trust (1)	725,192,740	40.6	708,371,742	39.7	16,820,998	2.4
Schools (Trust and Legacy)	423,153,735	23.7	410,653,937	23.0	12,499,798	3.0
UCFRB Restoration	156,259,455	8.7	154,963,038	8.7	1,296,417	0.8
Resource Indemnity Trust	100,023,109	5.6	100,254,844	5.6	(231,735)	(0.2)
Streamside Tailings	86,794,863	4.9	92,218,907	5.2	(5,424,044)	(5.9)
Highway 93 Bond	84,529,084	4.7	129,656,706	7.3	(45,127,623)	(34.8)
Tobacco Trust	68,174,460	3.8	57,901,622	3.2	10,272,839	17.7
Trusts in STIP	30,194,591	1.7	25,475,484	1.4	4,719,107	18.5
Montana Pole	28,225,455	1.6	27,704,394	1.6	521,061	1.9
Parks Trust	17,098,681	1.0	16,771,162	0.9	327,519	2.0
UCFRB Reserve	16,051,766	0.9	15,151,680	0.8	900,086	5.9
FWP Mitigation	11,407,035	0.6	11,162,155	0.6	244,880	2.2
Cultural Trust	8,476,780	0.5	4,930,175	0.3	3,546,605	71.9
Zortman/Landusky	7,371,362	0.4	6,885,646	0.4	485,716	7.1
Wildlife Habitat	7,334,441	0.4	6,883,700	0.4	450,741	6.5
Abandoned Mines	5,639,120	0.3	5,416,370	0.3	222,750	4.1
FWP Real Property	4,862,378	0.3	4,676,829	0.3	185,549	4.0
Weed Control	4,701,120	0.3	4,797,374	0.3	(96,254)	(2.0)
Zort/Land LT H20 Trust	1,248,702	0.1	0	0.0	1,248,702	N/A
Trusts in TFBP	694,479	0.0	414,634	0.0	279,845	67.5
Trusts in MTCP	186,873	0.0	244,213	0.0	(57,340)	(23.5)
Total	1,787,620,232	100.0	1,784,534,613	100.0	3,085,619	0.2
Fixed-Income	1,449,342,655	81.1	1,387,909,792	77.8	61,432,862	4.4
Montana Loans	208,928,654	11.7	212,353,581	11.9	(3,424,927)	(1.6)
Cash Equivalents (STIP)	129,162,050	7.2	177,868,468	10.0	(48,706,418)	(27.4)
State Street Repurchase Agr.	0	0.0	6,158,559	0.3	(6,158,559)	(100.0)
Equity	186,873	0.0	244,213	0.0	(57,340)	(23.5)
Total	1,787,620,232	100.0	1,784,534,613	100.0	3,085,619	0.2

(1) Includes Treasure State Endowment, Treasure State Water, Big Sky Economic Development, CST Bond and permanent Income Accounts

A complete listing of individual trust fund investment portfolios is shown beginning on Page A-5 in Appendix A. The investment income earned by each trust is shown beginning on Page A-1 in Appendix A.

COAL TAX TRUST FUND

Article IX, Section 5 of the state Constitution requires that 50 percent of all coal severance tax revenues be deposited in a permanent trust fund (Trust), in which the principal "shall forever remain inviolate unless appropriated by a three-fourths vote of each house" of the legislature. The Board is encouraged to invest up to 25 percent of the Trust in Montana businesses.

The Legislature has partitioned the Trust into several sub-funds. The Permanent Fund was initially established when the Trust was created, while the Severance Tax Bond Fund, created later, provides debt service guarantees and is invested solely in STIP. The Treasure State Endowment Fund was created July 1, 1993, with a $10.0 million transfer from the Permanent Fund. From July 1, 1993 through June 30, 1999 one-half of the coal severance tax earmarked for the Trust was deposited in the Permanent Fund and the remaining 50 percent was deposited in the Treasure State Endowment Fund.

Effective July 1, 1999, a new “Treasure State Endowment Regional Water Fund” sub-fund was created and 25 percent of Trust revenues were dedicated to that account.

Effective July 1, 2005, a new “Big Sky Economic Development Fund” sub-fund was created and 25 percent of Trust revenues were dedicated to that account.

There is currently no new revenue dedicated to the Permanent Fund.

Income from the Permanent Fund and the two Bond Funds is deposited in the Permanent Fund Income Fund where it is swept periodically to the state general fund. All sub-funds, except the income fund, are protected by the Constitution and may be appropriated only by a three-fourths vote of each house of the legislature. Income from the Treasure State Endowment is appropriated by the legislature for local government infrastructure projects. Treasure State Endowment Regional Water Fund income is appropriated by the legislature for local government water projects. Big Sky Economic Development Fund income is appropriated by the legislature for economic development projects.

The book values of the Coal Tax Trust sub-funds are shown below:

Coal Tax Trust Subfunds at June 30

Subfund	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% Change
Permanent Fund	528,863,711	72.9	549,720,744	77.6	(20,857,033)	(3.8)
Treasure State Endowment	136,459,197	18.8	127,055,930	17.9	9,403,267	7.4
Treasure State Regional Water	27,397,351	3.8	22,700,717	3.2	4,696,634	20.7
Economic Development Fund	23,605,433	3.3	0	-	23,605,433	NA
Severance Tax Bond Fund	5,896,131	0.8	6,151,521	0.9	(255,390)	(4.2)
Permanent Fund Income	2,970,918	0.4	2,742,830	0.4	228,088	8.3
Total Coal Tax Trust	725,192,740	100.0	708,371,742	100.0	16,820,998	2.4

The tables on the next page show:

- The changes in book value of portfolio securities,
- The difference between book and fair value of the securities portfolio, and
- The securities’ portfolio total rate of return.

Permanent Coal Tax Trust Change At June 30 (1)

Investment Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% Change
Fixed Income (TFBP)	467,064,535	64.4	446,777,546	63.1	20,286,989	4.5
Science and Technology	13,865,733	1.9	14,003,410	2.0	(137,678)	(1.0)
Department of Natural Resources	31,047,064	4.3	41,896,024	5.9	(10,848,960)	(25.9)
Department of Justice	2,112,000	0.3	2,112,000	0.3	0	0.0
Montana Facility Finance	14,476	0.0	47,482	0.0	(33,006)	(69.5)
Local Gov. Infrastructure	7,465,725	1.0	5,659,452	0.8	1,806,273	31.9
Value-added Loans	9,191,738	1.3	11,104,002	1.6	(1,912,265)	(17.2)
Commercial Loans	144,273,087	19.9	136,789,522	19.3	7,483,566	5.5
Intermediary Loan Program	958,832	0.1	741,688	0.1	217,144	29.3
Total In-State Investments	208,928,654	28.8	212,353,581	30.0	(3,424,927)	(1.6)
STIP Tr. St. Endow Trust	1,016,938	0.1	1,861,743	0.3	(844,805)	(45.4)
STIP Permanent Trust Income	2,970,918	0.4	2,742,830	0.4	228,088	8.3
STIP Permanent Fund	38,059,995	5.2	37,931,753	5.4	128,242	0.3
STIP Sev. Tax Bond Fund	5,896,131	0.8	6,151,521	0.9	(255,390)	(4.2)
STIP Tr. St. Regional Water	649,872	0.1	552,769	0.1	97,103	17.6
STIP Economic Development Fund	605,697	0.1	0	0.0	605,697	N/A
Cash Equivalents (STIP)	49,199,551	6.8	49,240,615	7.0	(41,064)	(0.1)
Total	725,192,740	100.0	708,371,742	100.0	16,820,998	2.4

(1) Includes Treasure State Endowment, Treasure State Water, CST Bond and Permanent Income Account

Permanent Coal Tax Trust Book/Fair Values At June 30, 2006

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (TFBP)	467,064,535	460,322,718	(6,741,817)	64.4	64.1
In-State Investments	208,928,654	208,928,654	0	28.8	29.1
Cash Equivalents (STIP)	49,199,551	49,199,551	0	6.8	6.8
Total	725,192,740	718,450,923	(6,741,817)	100.0	100.0

Permanent Coal Tax Trust 2006 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	4.33	91-Day T Bill x 105%	4.15	0.18
Fixed Income (TFBP)	0.49	Lehman Brothers Aggregate	-0.81	1.30
Montana Loans (1)	5.56	In-State Loans	NA	NA
All Assets	2.67			

(1) In-State Investment Loans, Science & Tech Loans, and other legislatively authorized loans

The Coal Tax Trust earned $41.8 million in investment income in 2006, compared to $46.2 million in 2005.

The Coal Tax Trust is also used to fund the In-State Investment Program *(See Page 61)*. The Coal Tax Trust invested balances and investment income history are shown on Page A-17 in Appendix A.

TRUST AND LEGACY FUND

Article X, Sections 2 and 3 of the state Constitution requires that all royalties and other proceeds received from school lands granted to the state under federal enabling legislation be deposited in the Trust and Legacy Fund, where it shall forever remain inviolate and guaranteed by the state against loss or diversion.

Trust & Legacy Fund Annual Change At June 30

Investment Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% Change
Fixed Income (TFBP)	423,153,735	100.0	410,653,937	100.0	12,499,798	3.0
Cash Equivalents (STIP)	0	0.0	0	0.0	0	0.0
Total	423,153,735	100.0	410,653,937	100.0	12,499,798	3.0

Trust & Legacy Book/Fair Values At June 30, 2006

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (TFBP)	423,153,735	422,820,393	(333,342)	100.0	100.0
Cash Equivalents (STIP)	0	0	0	0.0	0.0
Total	423,153,735	422,820,393	(333,342)	100.0	100.0

Trust & Legacy Fund 2006 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	4.33	91-Day T Bill x 105%	4.15	0.18
Fixed Income (TFBP)	0.40	Lehman Brothers Aggregate	-0.81	1.21
All Assets	0.47			

The Trust and Legacy Fund earned $24.8 million in investment income in 2006, compared to $28.4 million in 2005. The Trust and Legacy Fund invested balances and investment income history are shown on Page A-18 in Appendix A.

RESOURCE INDEMNITY TRUST FUND

Article IX, Section 2 of the state Constitution requires that revenues from the Resource Indemnity Tax on minerals be deposited in the Resource Indemnity Trust Fund, the principal of which "shall forever remain inviolate" until the principal reaches $100 million. The fund's book value reached $100.0 million in fiscal 2002.

Resource Indemnity Trust Annual Change At June 30

Investment Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% Change
Fixed Income (TFBP)	99,999,976	100.0	99,999,976	99.7	0	0.0
Cash Equivalents (STIP)	23,133	0.0	254,868	0.3	(231,735)	(90.9)
Total	100,023,109	100.0	100,254,844	100.0	(231,735)	(0.2)

Resource Indemnity Trust Book/Fair Values At June 30, 2006

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Fixed Income (TFBP)	99,999,976	100,665,481	665,505	100.0	100.0
Cash Equivalents (STIP)	23,133	23,133	0	0.0	0.0
Total	100,023,109	100,688,614	665,505	100.0	100.0

Resource Indemnity Trust Fund 2006 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	4.33	91-Day T Bill x 105%	4.15	0.18
Fixed Income (TFBP)	0.40	Lehman Brothers Aggregate	-0.81	1.21
All Assets	0.41			

The Resource Indemnity Trust Fund earned $5.9 million in investment income in 2006, compared to $6.9 million in 2005. The Resource Indemnity Trust Fund invested balances and investment income history are shown on Page A-19 in Appendix A.

COAL TAX PARKS/CULTURAL TRUST FUNDS

A portion of the coal severance tax is dedicated to a statutorily created Parks Trust Fund and a Cultural Trust Fund (Trusts). Investment income generated by the Trusts is appropriated by the legislature to acquire/operate state parks and to fund cultural and aesthetics projects. The 1997 legislature appropriated $3.9 million of Cultural Trust principal to purchase historical properties.

Coal Tax Parks/Cultural Funds Annual Change At June 30

Fund Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% Change
Parks Trust	17,098,681	66.9	16,771,162	77.3	327,519	2.0
Cultural Trust	8,476,780	33.1	4,930,175	22.7	3,546,605	71.9
Total	25,575,461	100.0	21,701,337	100.0	3,874,124	17.9
Investment Type						
Fixed Income (TFBP)	25,250,554	98.7	21,375,854	98.5	3,874,699	18.1
Cash Equivalents (STIP)	324,907	1.3	325,483	1.5	(576)	(0.2)
Total	25,575,461	100.0	21,701,337	100.0	3,874,124	17.9

Parks/Cultural Trusts Book/Fair Values At June 30, 2006

Fund Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Parks Trust	17,098,681	16,796,253	(302,428)	66.9	67.1
Cultural Trust	8,476,780	8,244,488	(232,292)	33.1	32.9
Total	25,575,461	25,040,741	(534,720)	100.0	100.0
Investment Type					
Fixed Income (TFBP)	25,250,554	24,715,834	(534,720)	98.7	98.7
Cash Equivalents (STIP)	324,907	324,907	0	1.3	1.3
Total	25,575,461	25,040,741	(534,720)	100.0	100.0

Parks/Cultural Trust Funds 2006 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Parks Trust:				
Cash Equivalents (STIP)	4.33	91-Day T Bill x 105%	4.15	0.18
Fixed Income (TFBP)	0.40	Lehman Brothers Aggregate	-0.81	1.21
Parks Trust All Assets	0.48			
Cultural Trust:				
Cash Equivalents (STIP)	4.32	91-Day T Bill x 105%	4.15	0.17
Fixed Income (TFBP)	0.40	Lehman Brothers Aggregate	-0.81	1.21
Cultural Trust All Assets	0.64			

The trusts earned $1.4 million in investment income in 2006, compared to $1.5 million in 2005. The invested balances and investment income history of these trusts are shown on Page A-20 in Appendix A.

OTHER TRUST FUNDS

Fish, Wildlife, and Parks (FWP) Mitigation Trust - expendable trust funds fish and wildlife mitigation/enhancements.

Abandoned Mine Trust - expendable trust funds abandoned mine reclamation.

FWP Real Property Trust - non-expendable trust funds operations, development, and maintenance of FWP real property.

Weed Control Trust - non-expendable $2.5 million trust funds noxious weed control.

Wildlife Habitat Trust - funds acquisition/development/maintenance of wildlife habitat.

Montana Post and Pole Trust - funds environmental cleanup of the former Montana Pole and Treatment Plant in Butte.

Guaranteed Student Loan - the federal portion of student loan monies.

The UCFRB Funds represent proceeds from state settlements with the Atlantic Richfield Company for restoration of the Upper Clark Fork River Basin.

Streamside Tailing Funds are derived from a consent decree between the state and the Atlantic Richfield Company for remedial treatment of the Silver Bow Creek/Butte area.

Tobacco Trust – The nation's largest tobacco companies are required to pay at least $205.0 billion over the next 25 years to the states. Forty percent of Montana's share is deposited in a trust fund.

Zortman/Landusky Funds were paid by the Pegasus mining company and its insurer to provide long-term water treatment at the closed Zortman and Landusky mines near Malta**.**

Highway 93 Bond - proceeds from a 2005 $129.4 million bond issue to fund Highway 93 improvements.

Zortman/Landusky LT H20 Trust – this fund has the same purpose as the existing Zortman/Landusky account; however, the source of funds is different. The legislature requires a deposit of $1.2 million a year into this account until there are sufficient funds to generate $19.3 million by January 1, 2018.

Other Trusts Annual Change At June 30

Fund	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% Change
UCFRB Restoration	156,259,455	32.4	154,963,038	29.9	1,296,417	0.8
Streamside Tailings	86,794,863	18.0	92,218,907	17.8	(5,424,044)	(5.9)
Highway 93 Bond	84,529,084	17.5	129,656,706	25.1	(45,127,623)	(34.8)
Tobacco Trust	68,174,460	14.1	57,901,622	11.2	10,272,839	17.7
Montana Pole	28,225,455	5.8	27,704,394	5.4	521,061	1.9
UCFRB Reserve	16,051,766	3.3	15,151,680	2.9	900,086	5.9
FWP Mitigation	11,407,035	2.4	11,162,155	2.2	244,880	2.2
Zortman/Landusky	7,371,362	1.5	6,885,646	1.3	485,716	7.1
Wildlife Habitat	7,334,441	1.5	6,883,700	1.3	450,741	6.5
Abandoned Mines	5,639,120	1.2	5,416,370	1.0	222,750	4.1
FWP Real Property	4,862,378	1.0	4,676,829	0.9	185,549	4.0
Weed Control	4,701,120	1.0	4,797,374	0.9	(96,254)	(2.0)
Zort/Land LT H20 Trust	1,248,702	0.3	0	0.0	1,248,702	N/A
Total	482,599,243	100.0	517,418,422	100.0	(34,819,179)	(6.7)
Investment Type						
Trust Funds Bond Pool	298,627,668	61.9	277,839,504	53.7	20,788,163	7.5
Corporate Asset-Backed Bonds	10,367,710	2.1	10,792,453	2.1	(424,743)	(3.9)
Other Corporate Bonds	14,772,297	3.1	16,699,041	3.2	(1,926,744)	(11.5)
US Mortgage-Backed Bonds	2,493,901	0.5	3,121,676	0.6	(627,774)	(20.1)
US Government-Backed Bonds	106,917,800	22.2	99,335,774	19.2	7,582,026	7.6
International Bonds (US $)	0	0.0	899,397	0.2	(899,397)	(100.0)
Total Fixed Income	433,179,376	89.8	408,687,845	79.0	24,491,531	6.0
Short Term Investment Pool	49,419,867	10.2	102,572,018	19.8	(53,152,151)	(51.8)
State Street Repurchase Agr.	0	0.0	6,158,559	1.2	(6,158,559)	N/A
Total Cash Equivalents	49,419,867	10.2	108,730,577	21.0	(59,310,710)	(54.5)
Total	482,599,243	100.0	517,418,422	100.0	(34,819,179)	(6.7)

Other Trusts Book/Fair Values At June 30, 2006

Fund	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
UCFRB Restoration	156,259,455	154,938,752	(1,320,703)	32.4	32.6
Highway 93 Bond	84,529,084	83,594,269	(934,814)	17.5	17.6
Streamside Tailings	86,794,863	85,286,312	(1,508,551)	18.0	17.9
Tobacco Trust	68,174,460	65,741,029	(2,433,431)	14.1	13.8
Montana Pole	28,225,455	27,830,649	(394,806)	5.8	5.9
UCFRB Reserve	16,051,766	15,807,135	(244,632)	3.3	3.3
FWP Mitigation	11,407,035	11,243,591	(163,444)	2.4	2.4
Zortman/Landusky	7,371,362	8,022,268	650,906	1.5	1.7
Wildlife Habitat	7,334,441	7,044,040	(290,401)	1.5	1.5
Abandoned Mines	5,639,120	5,560,834	(78,286)	1.2	1.2
Weed Control	4,701,120	4,633,672	(67,449)	1.0	1.0
FWP Real Property	4,862,378	4,675,333	(187,046)	1.0	1.0
Zort/Land LT H20 Trust	1,248,702	1,221,486	(27,216)	0.3	0.3
Total	482,599,243	475,599,370	(6,999,873)	100.0	100.0
Investment Type					
Trust Funds Bond Pool	298,627,668	293,009,836	(5,617,831)	61.9	61.6
Corporate Asset-Backed Bonds	10,367,710	9,991,532	(376,178)	2.1	2.1
Other Corporate Bonds	14,772,297	14,540,163	(232,134)	3.1	3.1
US Mortgage-Backed Bonds	2,493,901	2,483,813	(10,088)	0.5	0.5
US Government-Backed Bonds	106,917,800	106,154,159	(763,642)	22.2	22.3
International (US $)	0	0	0	0.0	0.0
Total Fixed-Income	433,179,376	426,179,503	(6,999,873)	89.8	89.6
Short Term Investment Pool	49,419,867	49,419,867	0	10.2	10.4
State Street Repurchase Agr.	0	0	0	0.0	0.0
Total Cash Equivalents	49,419,867	49,419,867	0	10.2	10.4
Total	482,599,243	475,599,370	(6,999,873)	100.0	100.0

The other trust portfolios are listed beginning on Page A-5 in Appendix A. The investment income earned by each trust is shown beginning on Page A-1 in Appendix A.

STATE FUND INSURANCE

The State Compensation Insurance Fund (State Fund) provides workers' compensation and occupational disease insurance for claims arising from injuries occurring on or after July 1, 1990. Effective on that date, the state's workers' compensation fund was divided into two funds with separate liabilities. The "old" fund retained all financial obligations for claims for injuries occurring prior to July 1, 1990, while the "new" fund assumed claim obligations for injuries occurring after that date.

State Fund Annual Change At June 30

Investment Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% of Change
Corporate Asset-Backed Bonds	30,052,781	4.0	24,310,182	3.7	5,742,599	23.6
Other Corporate Bonds	321,199,770	42.8	256,757,099	38.6	64,442,671	25.1
US Mortgage-Backed Bonds	20,208,115	2.7	26,134,547	3.9	(5,926,431)	(22.7)
US Government-Backed Bonds	298,646,776	39.8	244,379,693	36.8	54,267,084	22.2
International Bonds (US $)	0	0.0	11,951,816	1.8	(11,951,816)	(100.0)
Total Fixed Income	670,107,442	89.2	563,533,335	84.8	106,574,107	18.9
BGI S&P 500 Equity Index	68,406,676	9.1	68,406,676	10.3	0	0.0
Short Term Investment Pool	12,396,116	1.7	29,462,578	4.4	(17,066,462)	(57.9)
State Street Repurchase Agr.	0	0.0	3,105,156	0.5	(3,105,156)	(100.0)
Total Cash Equivalents	12,396,116	1.7	32,567,734	4.9	(20,171,618)	(61.9)
Total	750,910,235	100.0	664,507,746	100.0	86,402,489	13.0

State Insurance Fund Book/Fair Values At June 30, 2006

Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Fixed	% of Fair
Corporate Asset-Backed Bonds	30,052,781	29,432,670	(620,111)	4.5	3.9
Other Corporate Bonds	321,199,770	313,708,148	(7,491,622)	47.9	41.8
US Mortgage-Backed Bonds	20,208,115	19,910,359	(297,756)	3.0	2.7
US Government-Backed Bonds	298,646,776	292,429,033	(6,217,743)	44.6	38.9
International Bonds (US $)	0	0	0	0.0	0.0
Total Fixed Income	670,107,442	655,480,210	(14,627,232)	100.0	87.3
BGI S&P 500 Equity Index	68,406,676	83,377,362	14,970,686		11.1
Short Term Investment Pool	12,396,116	12,396,116	0		1.7
Cash Equivalents (STIP)	12,396,116	12,396,116	0		1.7
Total	750,910,235	751,253,688	343,454		100.0

State Fund Insurance 2006 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	4.32	91-Day T Bill x 105%	4.15	0.17
Equities	8.65	S & P 500 Index	8.63	0.02
Fixed Income	0.64	LB Gov/Corp Intermediate	(0.18)	0.82
All Assets	1.62	Composite (1)	0.88	0.74

(1) An Index Composite paralleling the Fund's asset allocation at fair value

The State Fund earned $32.2 million in investment income in 2006, compared to $30.2 million in 2005. The State Fund portfolio is listed beginning on Page A-6 of Appendix A.

OTHER INSURANCE FUNDS

Old Workers - Compensation Fund - pays claims for all injury claims occurring prior to July 1, 1990.
Group Insurance - created in 1981, provides health and life insurance to non-university state employees.
Subsequent Injury - provides benefits to workers who are vocationally handicapped and whose Workers' Compensation benefits have expired.
Hail Insurance - insures crops from hail damage. The entire account is currently held in STIP.
Other insurance programs whose investments are held solely in STIP include:

University Group Benefits.....$27,674,582
Uninsured Employers.....1,771,607
Agency Insurance.....17,668,187
Unemployment Insurance Benefits.....5,555,014

Total $52,669,390

Other Insurance Annual Change At June 30

Fund Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% of Change
Old Fund	52,016,448	52.4	62,604,429	62.4	(10,587,981)	(16.9)
Group Insurance	36,293,749	36.5	27,006,434	26.9	9,287,316	34.4
Hail Insurance	9,448,185	9.5	8,909,984	8.9	538,201	6.0
Subsequent Injury	1,563,748	1.6	1,764,417	1.8	(200,669)	(11.4)
Total	99,322,131	100.0	100,285,264	100.0	(963,133)	(1.0)
Investment Type						
Corporate Asset-Backed Bonds	6,304,106	6.3	2,680,027	2.7	3,624,079	135.2
Other Corporate Bonds	8,920,781	9.0	10,430,094	10.4	(1,509,313)	(14.5)
US Mortgage-Backed Bonds	1,694,255	1.7	2,415,662	2.4	(721,407)	(29.9)
US Government-Backed Bonds	47,186,615	47.5	48,938,362	48.8	(1,751,747)	(3.6)
International Bonds (US $)	0	0.0	99,933	0.1	(99,933)	(100.0)
Total Fixed Income	64,105,757	64.5	64,564,079	64.4	(458,322)	(0.7)
Short Term Investment Pool	35,216,374	35.5	34,634,381	34.5	581,993	1.7
State Street Repurchase Agr.	0	0.0	1,086,805	1.1	(1,086,805)	(100.0)
Total Cash Equivalents	35,216,374	35.5	35,721,186	35.6	(504,812)	(1.4)
Total	99,322,131	100.0	100,285,264	100.0	(963,133)	(1.0)

Other Insurance Book/Fair Values At June 30, 2006

Fund Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
Old Fund	52,016,448	51,353,551	(662,897)	52.4	52.2
Group Insurance	36,293,749	36,079,792	(213,957)	36.5	36.7
Hail Insurance	9,448,185	9,448,185	0	9.5	9.6
Subsequent Injury	1,563,748	1,540,190	(23,558)	1.6	1.6
Total	99,322,131	98,421,719	(900,412)	100.0	100.0
Investment Type					
Corporate Asset-Backed Bonds	6,304,106	6,163,589	(140,517)	6.3	6.3
Other Corporate Bonds	8,920,781	8,851,552	(69,229)	9.0	9.0
US Mortgage-Backed Bonds	1,694,255	1,688,342	(5,913)	1.7	1.7
US Government-Backed Bonds	47,186,615	46,501,862	(684,753)	47.5	47.2
Total Fixed Income	64,105,757	63,205,345	(900,412)	64.5	64.2
Short Term Investment Pool	35,216,374	35,216,374	0	35.5	35.8
Cash Equivalents (STIP)	35,216,374	35,216,374	0	35.5	35.8
Total	99,322,131	98,421,719	(900,412)	100.0	100.0

Other Insurance Portfolios are listed beginning on Page A-8 of Appendix A.

TREASURER'S FUND

The Treasurer's Fund (Fund) is comprised of surplus cash in all state accounts that do not retain their investment earnings. All earnings are deposited in the state general fund. State law authorizes the Board to determine the amount of surplus cash in the Fund to be invested and the type of investments to be made. Invested balances at book value vary widely due to varying levels of excess cash in the state's general fund and other accounts comprising the Fund. This Fund has been a major investor in STIP since 1974 when STIP was created.

Treasurer's Fund Annual Change At June 30

Investment Type	2006 $ Book Value	% of Total	2005 $ Book Value	% of Total	$ Change	% of Change
US Bank Sweep Repo	18,642,905	2.4	16,542,234	2.6	2,100,671	12.7
US Government-Backed Bonds	208,662,606	27.4	269,835,639	42.5	(61,173,032)	(22.7)
Cash Equivalents (STIP)	534,991,517	70.2	348,097,291	54.9	186,894,226	53.7
Total	762,297,028	100.0	634,475,164	100.0	127,821,865	20.1

Treasurer's Fund Book/Fair Values At June 30, 2006

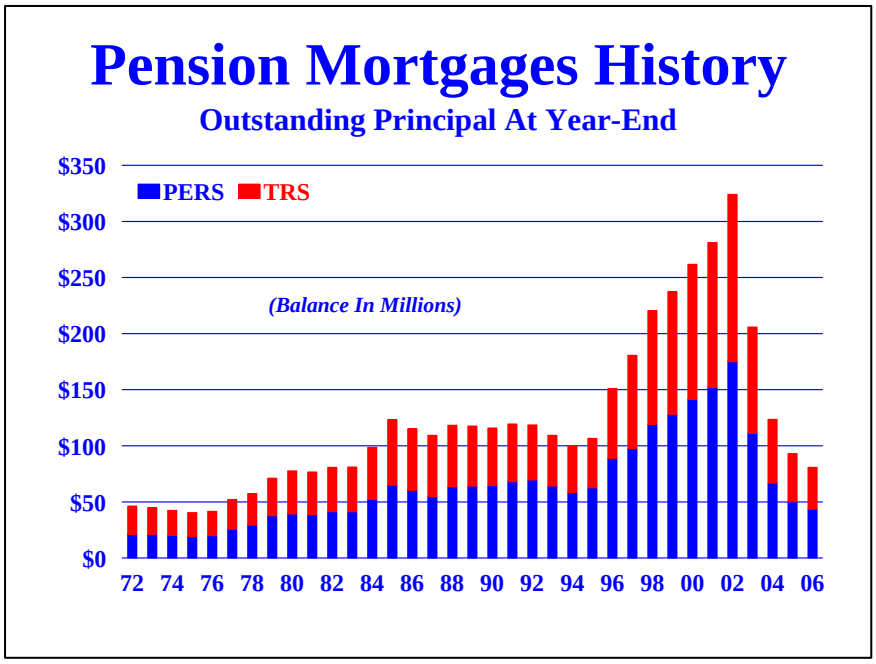
Investment Type	Book $ Value	Fair $ Value	Fair $ +/- Book	% of Book	% of Fair
US Bank Sweep Repo	18,642,905	18,642,905	0	2.4	2.5
US Government-Backed Bonds	208,662,606	205,125,719	(3,536,888)	27.4	27.0
Cash Equivalents (STIP)	534,991,517	534,991,517	0	70.2	70.5
Total	762,297,028	758,760,140	(3,536,888)	100.0	100.0

Treasurer's Fund 2006 Total Rates of Return

Asset Type	% Return	Benchmarks	Benchmark % Return	Return +/- Benchmark
Cash Equivalents (STIP)	4.33	91-Day T Bill x 105%	4.15	0.18
Fixed Income	2.53	ML US Treasury 1-3 Yrs.	1.83	0.70
All Assets	3.47			

The Treasurer's Fund earned $18.6 million in investment income in 2006, compared to $10.0 million in 2005. The Treasurer's Fund Portfolio is listed beginning on Page A-5 of Appendix A. The Treasurer's Fund invested balance and income history are shown on Page A-21 of Appendix A.

MONTANA RESIDENTIAL MORTGAGES



The Board invests pension funds in Montana mortgages by purchasing all or a portion of mortgages from qualified financial institutions. Interest rates are set weekly, based on quotes from the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, the two major US secondary mortgage markets. Financial institutions charge a fee for servicing the loans. The number and location of mortgages purchased by the Board depend upon the mortgage lending activities of individual financial institutions and their interest in the Board's mortgage program.

Montana Mortgages By Type Annual Change At June 30

Mortgage Type	2006 Book Value	% Of Total	2005 Book Value	% Of Total	$ Change	% Change
Residential Conventional	56,116,544	69.5	65,837,802	70.8	(9,721,258)	(14.8)
Residential FHA	21,823,692	27.0	23,739,991	25.5	(1,916,299)	(8.1)
Residential VA	2,828,242	3.5	3,109,327	3.3	(281,085)	(9.0)
Multi-Family Conventional	0	0.0	123,275	0.1	(123,275)	(100.0)
Total Mortgages	80,750,504	100.0	92,939,453	99.9	(12,188,949)	(13.1)

Mortgage rates on the secondary market declined to less than 6 percent during 2003 and the Board chose not to purchase mortgages for the pension funds at these rates. This policy, combined with heavy mortgage re-financings of mortgages in the portfolio caused a significant drop in the pension mortgage portfolio from 2003 through 2006.

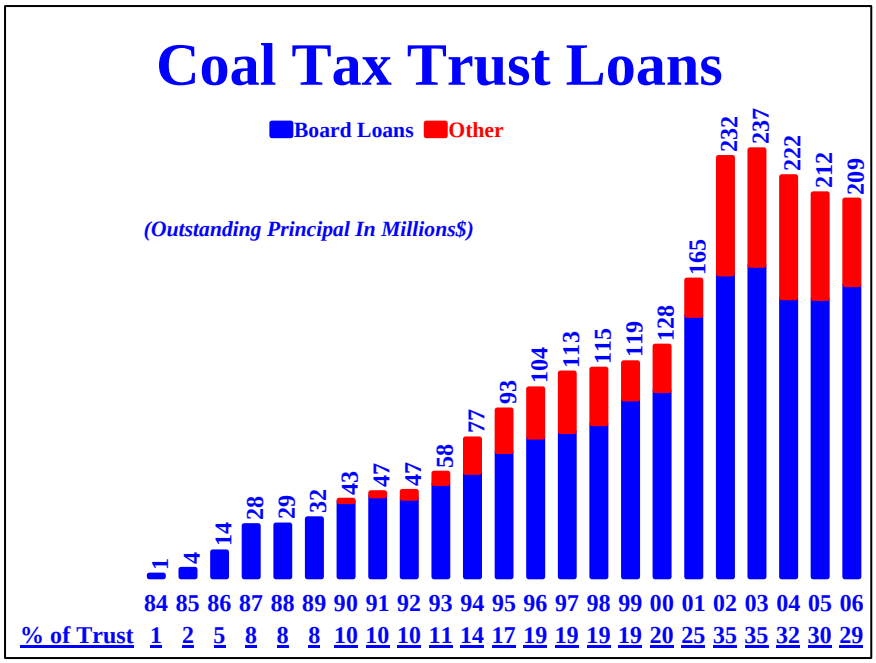
Loan Losses/Arrears - Pension Mortgage loans in arrears 90 days or more, increased from .23 percent of total mortgage holdings at year-end 2005 to .40 percent of mortgage holdings at year-end 2006. These arrears ratios compare to .40 percent and .55 percent respectively for Montana* financial institutions during the period. The number of properties in foreclosure increased from zero at year-end 2005 to one at year-end 2006. All mortgages are secured by single-family residential or multi-family residential properties in Montana.

*Source: Total FDIC Past Due and Non Accrual as of 3-31-06

Residential Mortgage Balances By County Annual Change At June 30

County	2006 Balance	% Of Total	2005 Balance	% Of Total	05-06 $ Change	2006 Loans	2005 Loans	05 - 06 Change
Yellowstone	28,294,899	35.0	32,926,021	35.9	(4,631,122)	474	556	(82)
Gallatin	8,983,593	11.1	9,749,028	10.8	(765,435)	131	147	(16)
Flathead	4,795,307	5.9	6,254,231	8.2	(1,458,924)	78	101	(23)
Lake	4,234,305	5.2	5,264,591	6.0	(1,030,285)	69	89	(20)
Custer	3,480,196	4.3	4,636,911	3.7	(1,156,715)	92	112	(20)
Stillwater	3,449,515	4.3	4,867,193	5.1	(1,417,678)	55	71	(16)
Cascade	3,208,746	4.0	3,928,710	4.1	(719,964)	66	77	(11)
Richland	3,143,205	3.9	1,991,738	1.7	1,151,468	62	51	11
Park	1,742,403	2.2	2,023,355	2.2	(280,952)	33	36	(3)
Sanders	1,740,802	2.2	1,786,099	1.9	(45,297)	25	27	(2)
Roosevelt	1,660,973	2.1	1,819,524	1.3	(158,551)	40	41	(1)
Hill	1,622,751	2.0	2,054,572	1.2	(431,821)	34	44	(10)
Carbon	1,586,377	2.0	1,906,655	1.6	(320,278)	25	30	(5)
Valley	1,349,341	1.7	1,529,842	1.0	(180,500)	34	37	(3)
Blaine	1,225,345	1.5	835,550	0.5	389,795	31	18	13
Dawson	1,072,190	1.3	1,234,238	1.1	(162,048)	33	38	(5)
Phillips	962,878	1.2	692,732	0.5	270,146	20	18	2
Beaverhead	832,600	1.0	1,261,751	1.1	(429,151)	15	21	(6)
Missoula	802,901	1.0	913,961	4.7	(111,060)	17	20	(3)
Fallon	598,332	0.7	401,874	0.2	196,458	11	8	3
Rosebud	524,107	0.6	562,428	0.5	(38,320)	5	13	(8)
Madison	523,389	0.6	546,638	0.6	(23,249)	13	5	8
Broadwater	506,093	0.6	390,300	0.4	115,793	5	14	(9)
Lewis & Clark	501,588	0.6	712,447	0.8	(210,860)	14	19	(5)
Fergus	500,043	0.6	518,145	0.4	(18,102)	15	9	6
Bighorn	433,149	0.5	409,388	0.3	23,761	9	10	(1)
Choteau	423,334	0.5	550,861	0.5	(127,528)	9	12	(3)
Jefferson	369,080	0.5	394,769	0.4	(25,688)	9	6	3
Ravalli	307,729	0.4	342,200	0.5	(34,471)	6	5	1
Silver Bow	298,842	0.4	326,511	0.4	(27,669)	5	8	(3)
Glacier	218,899	0.3	267,019	0.4	(48,120)	7	5	2
Powell	140,852	0.2	144,752	0.2	(3,900)	4	3	1
Sheridan	130,811	0.2	159,388	0.1	(28,577)	3	8	(5)
Pondera	122,627	0.2	76,699	0.1	45,929	7	1	6
Sweet Grass	107,378	0.1	118,149	0.3	(10,771)	3	3	0
Deer Lodge	106,913	0.1	111,494	0.0	(4,581)	3	3	0
Wheatland	92,591	0.1	161,183	0.1	(68,592)	3	4	(1)
McCone	89,427	0.1	133,560	0.1	(44,134)	2	4	(2)
Mineral	79,345	0.1	83,118	0.1	(3,774)	3	1	2
Prairie	65,561	0.1	69,526	0.0	(3,965)	1	2	(1)
Daniels	54,480	0.1	58,487	0.1	(4,007)	2	1	1
Musselshell	53,573	0.1	84,943	0.2	(31,370)	1	3	(2)
Carter	53,168	0.1	57,498	0.0	(4,330)	1	2	(1)
Judith Basin	50,117	0.1	51,110	0.0	(993)	2	1	1
Teton	42,345	0.1	46,267	0.1	(3,922)	1	2	(1)
Lincoln	41,149	0.1	43,032	0.2	(1,882)	2	1	1
Golden Valley	35,859	0.0	44,273	0.0	(8,415)	1	1	0
Granite	34,311	0.0	35,062	0.0	(751)	1	1	0
Powder River	22,947	0.0	25,857	0.0	(2,911)	1	1	0
Garfield	21,989	0.0	23,433	0.1	(1,444)	1	1	0
Wibaux	18,979	0.0	27,249	0.0	(8,271)	1	2	(1)
Toole	11,145	0.0	14,008	0.0	(2,863)	1	1	0
Treasure	0	0.0	115,113	0.1	(115,113)	0	1	(1)
Meagher	0	0.0	26,911	0.1	(26,911)	0	1	(1)
Total	80,750,504	100.0	92,939,453	100.0	(12,188,949)	1,486	1,696	(210)

COAL TAX TRUST LOANS



Created in 1984 as part of the "Build Montana" program, this program invests Coal Tax Trust funds in Montana to stimulate the state's economy. State law authorizes the Board to invest the Trust to increase employment and business opportunities, while maintaining and improving the state's physical environment. The "other" portion of the graph is comprised of these loans:

DNRC - $31.0 Million
Science & Tech - 13.9 Million
Dep. of Justice - 2.1 Million

Loan Types – Four different loan types are available in the In-State Investment Program, some of which offer a job credit interest rate reduction equal to 0.05 percent for each job created, up to a maximum reduction of 2.5 percent.

The Commercial Loan Participation Program purchases from originating financial institutions up to 80 percent of a participation loan. Unencumbered land, buildings, and equipment may be financed with the loan proceeds. The financial institutions charge a fee to service the loan and the Board's loan is collateralized proportionally to the Board's share of the loan. At year-end 2006, this Program had $144.27 million in loan principal outstanding.

The Infrastructure Loan Program provides loans to eligible local governments for constructing infrastructure required by job creating businesses in their jurisdiction. At year-end 2006, this Program had $7.47 million in loan principal outstanding. Total loans outstanding in this Program are limited by law to $50.0 million.

The Value-added Loan Program provides low interest loans to value-added type businesses that create or retain jobs. At year-end 2006, this Program had $9.19 million in loan principal outstanding. Total loans outstanding in this Program are limited by law to $50.0 million**.**

The Intermediary Re-lending Program provides loans to local economic development organizations with revolving loan programs. At year-end 2006, this Program had $0.9 million in loan principal outstanding. Individual loans may not exceed $500,000 and total loans outstanding in this Program are limited by law to $5.0 million.

Loan Yield - On June 30, 2006, the average weighted yield of all outstanding loans, excluding Value-Added and IRP loans whose interest rates are set by law, was 5.89 percent.

Loans From Inception By County Annual Change At June 30

County	Through 2006	% Of Total	Through 2005	% Of Total	05-06 $ Increase	2006 <# Loans>	2005	05-06 Inc
Missoula	86,780,482	17.2	84,839,411	18.1	1,941,071	211	209	2
Gallatin	76,720,857	15.2	61,949,128	13.2	14,771,729	115	110	5
Yellowstone	67,969,162	13.5	63,249,342	13.5	4,719,820	126	122	4
Cascade	45,809,670	9.1	40,546,039	8.6	5,263,631	48	45	3
Flathead	40,998,792	8.1	36,183,535	7.7	4,815,257	82	79	3
Lewis & Clark	40,707,453	8.1	40,317,039	8.6	390,414	89	88	1
Lake	19,432,991	3.9	19,432,991	4.1	0	90	90	0
Park	17,260,860	3.4	17,260,860	3.7	0	26	26	0
Ravalli	14,987,006	3.0	14,987,006	3.2	0	46	46	0
Madison	13,713,554	2.7	13,713,554	2.9	0	70	70	0
Beaverhead	11,150,710	2.2	11,150,710	2.4	0	30	30	0
Silver Bow	10,098,318	2.0	10,057,683	2.1	40,635	10	10	0
Stillwater	9,289,630	1.8	9,230,452	2.0	59,179	49	48	1
Blaine	5,955,325	1.2	5,928,325	1.3	27,000	34	34	0
Richland	3,580,953	0.7	3,580,953	0.8	0	26	26	0
Rosebud	3,162,078	0.6	3,162,078	0.7	0	2	2	0
Roosevelt	3,114,353	0.6	2,972,856	0.6	141,497	8	7	1
Carbon	3,077,336	0.6	3,037,336	0.6	40,000	13	13	0
Phillips	2,876,459	0.6	1,020,139	0.2	1,856,320	4	3	1
Jefferson	2,863,980	0.6	2,863,980	0.6	0	12	12	0
Sanders	2,721,699	0.5	2,721,699	0.6	0	9	9	0
Custer	1,960,399	0.4	1,960,399	0.4	0	3	3	0
Lincoln	1,923,608	0.4	1,923,608	0.4	0	6	6	0
Valley	1,906,399	0.4	1,906,399	0.4	0	15	15	0
Choteau	1,701,998	0.3	1,701,998	0.4	0	4	4	0
Mineral	1,611,093	0.3	1,611,093	0.3	0	3	3	0
Granite	1,524,095	0.3	1,524,095	0.3	0	6	6	0
Hill	1,511,297	0.3	1,511,297	0.3	0	9	9	0
Meagher	1,424,517	0.3	1,424,517	0.3	0	5	5	0
Fergus	1,219,955	0.2	1,219,955	0.3	0	2	2	0
Dawson	874,285	0.2	874,285	0.2	0	1	1	0
Sweet Grass	751,737	0.1	751,737	0.2	0	3	3	0
Bighorn	676,400	0.1	676,400	0.1	0	3	3	0
Pondera	653,380	0.1	425,000	0.1	228,380	2	1	1
Powell	616,500	0.1	616,500	0.1	0	1	1	0
Toole	492,707	0.1	492,707	0.1	0	1	1	0
Fallon	476,429	0.1	476,429	0.1	0	2	2	0
Broadwater	463,199	0.1	463,199	0.1	0	3	3	0
Liberty	455,439	0.1	455,439	0.1	0	3	3	0
McCone	295,148	0.1	295,148	0.1	0	3	3	0
Musselshell	163,000	0.0	163,000	0.0	0	1	1	0
Wibaux	90,000	0.0	90,000	0.0	0	1	1	0
Powder River	57,105	0.0	57,105	0.0	0	1	1	0
Total	503,120,357	100.0	468,825,426	100.0	34,294,931	1,178	1,156	22

Commercial Loan By Sector Annual Change At June 30

Investment Type	2006 Book Value	% Of Total	2005 Book Value	% Of Total	$ Change	% Change
Service Industry	174,905,754	34.8	162,660,366	34.7	12,245,388	7.5
Finance/Insurance/Real Estate	96,818,953	19.2	84,838,783	18.1	11,980,170	14.1
Retail Trade	83,811,551	16.7	74,596,411	15.9	9,215,140	12.4
Manufacturing	66,717,581	13.3	66,430,023	14.2	287,558	0.4
Agriculture/Forestry/Fishing	54,427,359	10.8	54,206,164	11.6	221,195	0.4
Wholesale Trade	8,986,679	1.8	8,797,713	1.9	188,966	2.1
Transportation/Utilities/Comm.	7,664,904	1.5	7,664,904	1.6	0	0.0
Construction	6,840,566	1.4	6,684,052	1.4	156,513	2.3
Mining	2,947,010	0.6	2,947,010	0.6	0	0.0
Total	503,120,357	100.0	468,825,426	100.0	34,294,931	7.3

Loan Losses/Arrears - The number of loans in this program in arrears 90 days or more increased from 0.12 percent of total outstanding loans at year-end 2005 to 0.23 percent of outstanding loans at year-end 2006. These arrears ratios compare to 1.63 percent and .42 percent, respectively for Montana financial institutions during that period *. There were no losses in 2005 or 2006.

*Source: Total FDIC Past Due and Non Accrual as of 3-31-06

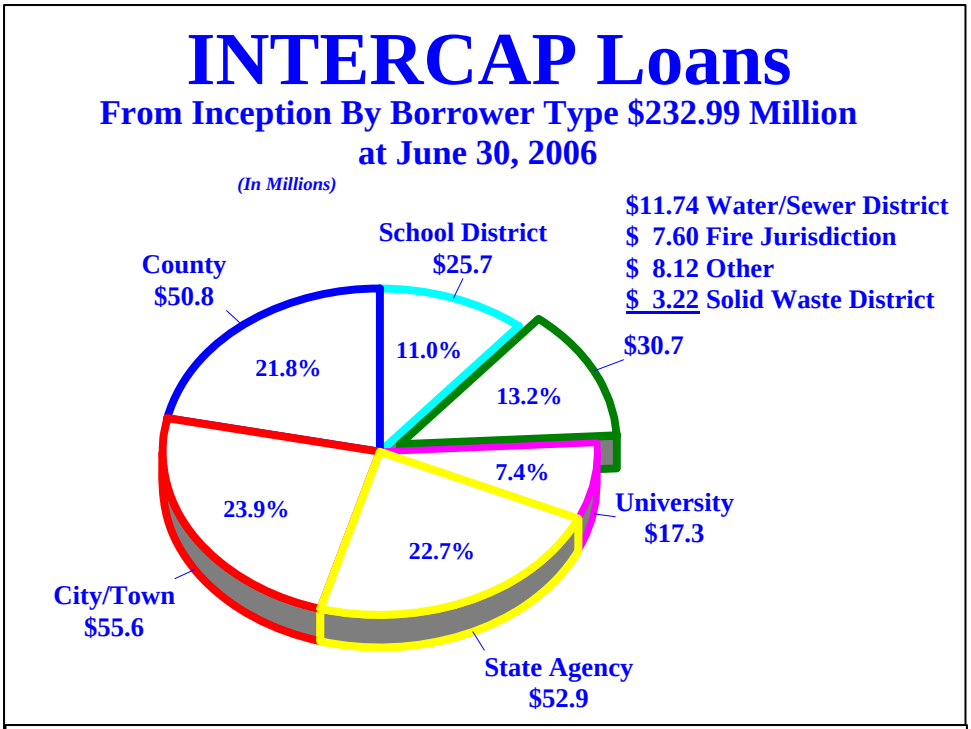
In addition to the Coal Tax Loan Program and the Residential Mortgage Programs, the Board also invests other state funds in Montana and guarantees bonds as shown in the table below:

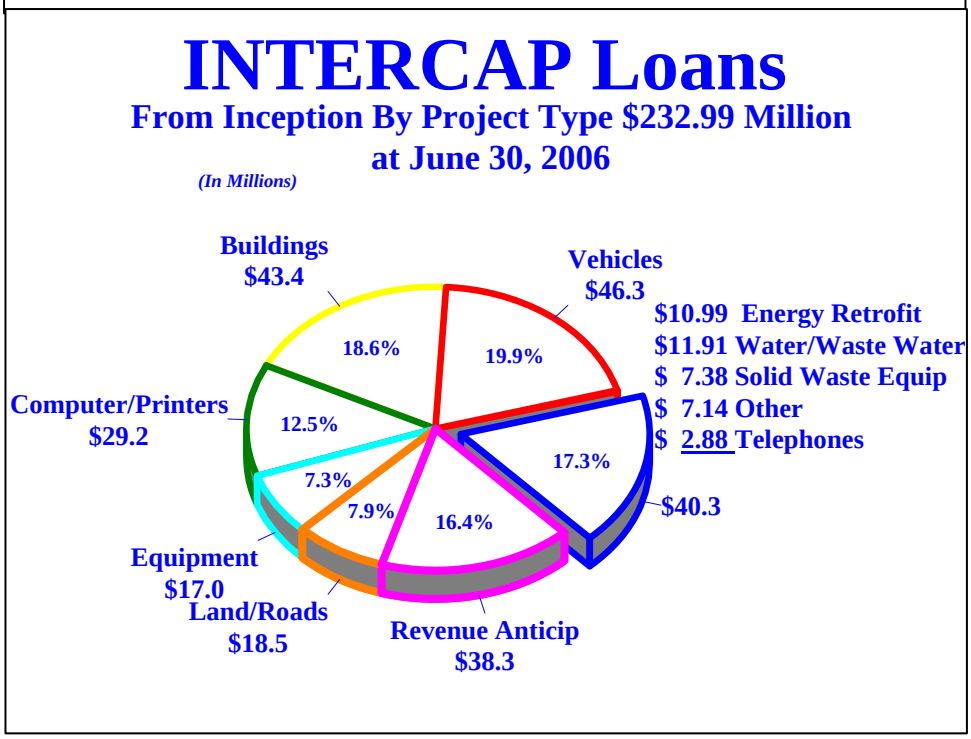
Instate Loans and Other In-State Investments

Loan Type	2006 $ Book Value	2005 $ Book Value	$ Change
Commercial Loans	144,273,087	137,531,209	6,741,878
Residential Mortgages	80,750,504	92,939,453	(12,188,948)
School Trust Loan	31,047,064	41,896,024	(10,848,960)
Pension Equity Real Estate	16,477,350	16,316,230	161,121
Montana Science and Technology	13,865,733	14,003,410	(137,678)
Value-Added Loans	9,191,738	11,104,002	(1,912,265)
Infrastructure Loans	7,465,725	5,659,452	1,806,273
Department of Justice Loan	2,112,000	2,112,000	0
Facility Finance Authority Loans	14,476	47,482	(33,006)
Intermediary Loan Program	958,832	741,688	217,144
Total In-State Loans	306,156,508	322,350,950	(16,194,442)
PPL Montana	43,209,386	45,396,911	(2,187,525)
Med Map LLC (St. Vincent's Hospital, Billings)	22,735,000	23,910,000	(1,175,000)
First Interstate BancSystem, Montana	4,600,000	8,900,000	(4,300,000)
Montana CRP Bonds (55 issues)	2,656,472	3,028,270	(371,797)
Butte/Silver Bow Tax Increment	0	1,535,000	(1,535,000)
Board of Housing	1,135,000	1,140,000	(5,000)
Renewable Resource (1997A GO)	0	419,219	(419,219)
Total State, Local Gvt and Corporate Bonds	74,335,858	84,329,399	(9,993,541)
Total Loans and Bonds	380,492,367	406,680,349	(26,187,983)
Bond Guarantees (1)	131,280,309	130,476,641	803,668

(1) Guarantees of INTERCAP and Montana Facility Finance Authority Bonds

BOND PROGRAMS





INTERCAP - The Board administers several bond programs under the Montana Economic Development Bond and the Municipal Finance Consolidation Acts, created as part of the "Build Montana" program in 1984.

The INTERCAP program lends funds to eligible governments for a variety of purposes. The upper graph depicts the types of borrowers using the program since its inception. Since 1987, 416 eligible governments have received 1,155 loans, totaling $232.99 million.

The lower graph shows the types of projects for which loans were made since program inception. At June 30, 2006, there was $69.64 million in outstanding loan balances.

INTERCAP loans are funded with proceeds from bonds issued by the Board. Since the program's inception, the Board has issued $109 million in bonds with $83.62 million outstanding at June 30, 2006.

Loan interest rates, which are reset each February 16 based on the interest on the bonds funding the loans, were set at 4.75 percent on February 16, 2006.

Other bond programs managed by the Board are**:**

- ***School District Pooled Refunding Program***

In 1991 the Board purchased general obligation refunding bonds of participating school districts, enabling the districts to refinance their outstanding bonds at a lower interest rate. The 16 school districts participating in this $6.234 million bond issue saved a total of $577,600 in interest over the life of the refunding bonds. These bonds matured in January 2005. Although this Program is inactive, it could be re-activated given sufficient demand.

- ***Pooled Irrigation Program***

Five irrigation districts participated in this Program that prepaid their outstanding loans to the federal Bureau of Reclamation. The Board issued bonds of $4.976 million in 1988 to prepay $15.6 million of non-interest bearing federal loans held by the districts. The Board lent the bond proceeds to the districts at an average 7.20 percent interest. Although the districts paid off non-interest federal loans with interest bearing loans, they saved a total of $5.9 million, because the federal loans were prepaid at steep discounts, thereby significantly lowering the amount of principal owed by the districts.

- ***Qualified Zone Academy Bond Program (QZAB)***

This program allows qualifying school districts to borrow money at no or nominal interest rates by issuing qualified zone academy bonds. Bonds outstanding as of June 30 are listed below:

Project	Issue Date	Issue Amount	6/30/2006 Balance
Huntley Project Schools	12/01/00	750,000	750,000
Bozeman Public Schools	11/25/03	1,586,000	1,586,000
Philipsburg Schools	12/10/03	2,000,000	2,000,000
Cut Bank Elementary	08/18/05	825,000	825,000
Cut Bank High School	08/18/05	625,000	625,000
Total		**5,786,000**	**5,786,000**

Economic Development Bond Act

- ***Stand Alone Economic Development Bond Program***

This Program provides qualifying businesses access to tax-exempt funds and the Board has issued bonds to finance several projects. The Board acts as a legal funding conduit only and is not pecuniarily liable for the repayment of the bonds. Bonds outstanding as of June 30 are listed below:

Project	Issue Date	Issue Amount	6/30/2006 Balance
Colstrip	10/01/89	60,800,000	50,700,000
BGI	07/01/93	118,345,000	115,145,000
Stillwater Mining	07/01/00	30,000,000	30,000,000
Gainey Foundation	10/01/02	6,000,000	4,700,000
Total		**215,145,000**	**200,545,000**

Montana Conservation Reserve Payment (CRP) Enhancement Program

This Program provides loans to Montana farmers to refinance outstanding loans and/or to purchase additional land and farm equipment. The borrowers assign their federal CRP contracts to the Board in exchange for a loan ranging from 60 percent to 75 percent of the remaining payments on the CRP contracts. When the Program began, bonds were issued to provide funding for the loans. Recently, the loans have been funded from the Trust Funds Bond Pool as an investment. Loan interest rates are typically set at 0.50 higher than the interest set by the Trust Funds Bond Pool manager. A total of 234 loans, totaling $31.39 million have been funded under this Program**.**

- ***Pooled Economic Development Bond Program***

This Program, inactive since 1986 due to federal tax law revisions, provided loans to small businesses to expand and improve their facilities. The Board funded the loans by issuing tax-exempt bonds. Except for a pledge of revenues and a guaranty fund, the Board has no pecuniary liability under this Program. The last outstanding loan was paid off in May 2006. The bonds issued to fund the loans have been repaid.

The Bond Program financial statements begin on Page B-85 in Appendix B**.**